
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LIQUIDITY SERVICES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)

52-2209244
(I.R.S. Employer
Identification No.)

2131 K Street, N.W.
4th Floor
Washington, D.C. 20037
(202) 467-6868

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive office)

William P. Angrick, III
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common Stock, \$.001 par value per share	\$86,250,000	\$10,152

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the Registration Statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

Shares



Common Stock

We are offering for sale _____ shares of our common stock. The selling stockholders included in this prospectus are offering an additional _____ shares of common stock. This is our initial public offering and no public market currently exists for our shares.

We anticipate that the initial public offering price will be between \$ _____ and \$ _____ per share. We have applied to list our common stock on the Nasdaq National Market under the symbol "LQDT."

Investing in our common stock involves risk. See "Risk Factors" beginning on page 11.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to Liquidity Services, Inc.	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

Certain of the selling stockholders have granted the underwriters the right to purchase up to _____ additional shares of common stock to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about _____, 2006.

FRIEDMAN BILLINGS RAMSEY

RBC CAPITAL MARKETS

CIBC WORLD MARKETS

PACIFIC CREST SECURITIES

Prospectus dated _____, 2006.

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PROSPECTUS SUMMARY

The following is a brief summary of selected contents of this prospectus. It does not contain all the information that may be important to you. You should read the entire prospectus, including our consolidated financial statements and related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed under the caption "Risk Factors" before making an investment decision.

Overview

We are a leading online auction marketplace for wholesale, surplus and salvage assets. Our marketplaces provide professional buyers access to a global supply of wholesale, surplus and salvage assets organized into over 500 categories and presented with product information necessary to make more informed bids, including digital images, detailed descriptions and extensive technical information. We enable our corporate and government sellers to enhance their financial returns from the sale of excess assets by providing a liquid marketplace and integrated value-added services, including sales and marketing, logistics and transaction settlement. Our online auction marketplaces are www.liquidation.com, www.govliquidation.com and www.uksurplus.com. We also operate a wholesale industry portal, www.goWholesale.com, that connects advertisers with buyers seeking products for sale and business services.

We believe our ability to create liquid marketplaces for wholesale, surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers and that this flow of goods attracts an increasing number of professional buyers to our marketplaces. During the year ended September 30, 2005, the number of our registered buyers grew from approximately 264,000 to approximately 386,000, and during the past three fiscal years, we have conducted over 436,000 online transactions generating approximately \$264 million in gross merchandise value. For the fiscal year ended September 30, 2005, we generated revenue of \$89.4 million. Our revenue has grown at a compound annual growth rate of approximately 26% since fiscal year 2002, and we have been profitable and have had positive cash flow from operations since fiscal year 2002.

Industry Overview

We believe many manufacturers, retailers, corporations and government agencies focus on the procurement of new goods for initial use or resale but not on the disposal, liquidation and tracking of goods in the reverse supply chain, such as retail customer returns, overstock products and end-of-life goods. We believe that the volume of goods in this reverse supply chain is continuing to increase, driven by accelerating product innovation, supply chain complexity, government regulations and the return policies of national and online retailers. According to D.F. Blumberg Associates, Inc., a research and consulting firm, the estimated reverse logistics market in North America will grow from approximately \$38.5 billion in 2004 to over \$63.1 billion in 2008. In an effort to streamline and improve the efficiency of their disposition activities for surplus and end-of-life assets, federal and state governments have made significant progress toward outsourcing these functions. Similarly, we believe corporations continue to realize that their current supply chain infrastructure is not well suited to cost effectively handle the sale of surplus, salvage, returned and overstocked merchandise.

Traditional methods of wholesale, surplus and salvage asset disposition, such as live on-site auctions and negotiated direct sales, are generally highly fragmented and limited in geographic reach. As a result, buyers are often unaware of or unable to participate in these events, which reduces buyer competition and the ultimate value a seller realizes from a sale. We believe the Internet provides professional buyers of wholesale, surplus and salvage assets with a more effective and efficient means to identify and source goods available for immediate purchase.

Our Solution

Our solution is comprised of our online auction marketplaces, value-added services and our wholesale search and advertising portal. Our three online marketplaces serve as a transparent and convenient method for the sale of wholesale, surplus and salvage assets and are designed to address the particular requirements of the sellers and professional buyers we serve. Sellers and buyers come together to transact for goods sold "as-is, where-is," generally without the discretionary right to return the goods. We organize our products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, and specialty equipment and sell these products in lot sizes ranging from full truck loads to pallets, packages and large individual items.

Our comprehensive solution includes value-added services that simplify the sale process for sellers and enhances the utility of our marketplaces for our buyers. Unlike other online auction websites on which sellers post information and deal directly with the buyer to complete a sale, we manage each step of the transaction. We perform all required pre-sale services such as receiving and lotting merchandise and implementing marketing strategies. In a centralized location, our buyers are provided access to detailed product descriptions, digital images, seller transaction histories, shipping weights and dimensions and estimated shipping costs. After a transaction is executed, we also perform all required post-sale services such as payment collection, settlement and reporting. We believe these value-added services significantly contribute to an enhanced selling price while providing buyers with a secure transaction environment and confidence in the goods they purchase.

We believe our marketplaces benefit over time from greater scale and adoption by our constituents. Aggregating buyer demand enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of professional buyers. As buyers continue to discover and use our online trading platform as an effective method to source assets, we believe our marketplaces become an increasingly attractive sales channel for corporations and government agencies. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

In addition to our marketplaces, our wholesale industry portal, www.goWholesale.com, provides a single online destination for buyers to find wholesale products, suppliers and services. We developed this portal to provide advertisers with the ability to reach our growing network of professional buyers.

Our Benefits to Sellers and Buyers

We offer the following key benefits to sellers and buyers:

Benefits to Sellers	Benefits to Buyers
<ul style="list-style-type: none">• Access to a broad, aggregated buyer audience enhances value realized on the sale of wholesale, surplus and salvage assets	<ul style="list-style-type: none">• Marketplaces provide access to a continuous flow of wholesale, surplus and salvage assets
<ul style="list-style-type: none">• Comprehensive service offerings allow sellers the ability to fully outsource reverse supply chain activities	<ul style="list-style-type: none">• Complete product search capabilities with search criteria including keyword, category, lot size, condition and location improve information availability
<ul style="list-style-type: none">• Profit sharing arrangements align our interests with those of our sellers	<ul style="list-style-type: none">• Intelligent alerts delivered through email provide buyers with notice of upcoming auctions of interest
<ul style="list-style-type: none">• Online auction environment and liquid marketplaces allow sellers to sell goods in any condition for cash	<ul style="list-style-type: none">• Superior product information, including digital images, detailed descriptions with shipping dimensions and extensive technical information, enables more informed bidding
<ul style="list-style-type: none">• Faster cycle times and greater flexibility than traditional auction methods improve seller recovery on asset sales	<ul style="list-style-type: none">• Shipping quotes and services assure buyers can both estimate the cost of delivery in advance of a bid and have the goods delivered
<ul style="list-style-type: none">• Discrete venue to sell surplus and salvage assets preserves brand value and mitigates channel conflict	<ul style="list-style-type: none">• Secure settlement and dispute resolution assure the delivery of goods and provide a means to resolve problems
<ul style="list-style-type: none">• Transaction platform provides transparent reporting capabilities	<ul style="list-style-type: none">• Tracking and reporting tools provide buyers real time transaction information

Our Growth Strategy

Our objective is to build upon our position as a leading online auction marketplace for selling wholesale, surplus and salvage assets. The key elements of our strategy are:

Grow our buyer base and increase the total number of auction participants. We intend to increase the level of bidding activity and competition within each auction by growing our database of professional buyers and implementing an increased variety of both online and traditional marketing programs to increase buyer participation in our online marketplaces.

Increase penetration of existing sellers. We intend to increase our sales by further penetrating our existing seller relationships to manage and sell an increased share of their available supply of wholesale, surplus and salvage assets.

Develop new seller relationships. We intend to increase our number of corporate and government seller relationships by leveraging our demonstrated performance record and expanded sales and marketing initiative.

Develop and enhance features and services. We intend to utilize the insights gained from our completed auctions to develop and enhance features and services that benefit our buyers and sellers.

Expand our wholesale industry portal and advertising network. We intend to further expand our advertising network and develop products that enable wholesale buyers and sellers to more quickly and easily find, create and organize relevant industry information.

Acquire complementary businesses. We intend to continue our disciplined and targeted acquisition strategy to increase our share of the supply of wholesale, surplus and salvage goods sold by selectively acquiring complementary businesses.

Our Government Contracts

We are the exclusive contractor of the Defense Reutilization and Marketing Service, or DRMS, for the sale of surplus and scrap assets of the United States Department of Defense, or DoD, in the United States. In June 2001, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell all usable surplus property of DoD turned into DRMS. This contract expires in 2008 and accounted for 95.8%, 91.0% and 87.5% of our revenue and for 80.5%, 77.5% and 76.5% of our gross merchandise value for the fiscal years ended September 30, 2003, 2004 and 2005, respectively. Total revenue under our DoD surplus property contract has increased at a compound annual growth rate in excess of 21% since fiscal year 2002. In June 2005, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell substantially all scrap property of DoD turned into DRMS. This contract expires in 2012, subject to DoD's right to extend for three additional one-year terms, and accounted for less than 1% of our revenue in fiscal year 2005.

Corporate Information

We were incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in January 2000. We were renamed Liquidity Services, Inc. in November 2001. Our principal executive offices are located at 2131 K Street N.W., 4th Floor, Washington D.C. 20037, and our telephone number is (202) 467-6868. Our corporate website is located at www.liquidityservicesinc.com. The information contained in, or that can be accessed through, our website is not part of this prospectus.

Unless otherwise indicated, the terms "Liquidity Services, Inc.," "LSI," the "company," "we," "us" and "our" refer to Liquidity Services, Inc. and its subsidiaries.

All references to years in this prospectus, unless otherwise noted, refer to our fiscal years, which end on September 30. For example, a reference to "2005" or "fiscal year 2005" means that 12-month period that ended September 30, 2005.

The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after the offering	shares
Use of proceeds	<p>Our net proceeds from this offering after deducting estimated expenses will be approximately \$ million.</p> <p>We will use these net proceeds for the repayment of \$4.4 million of our indebtedness, working capital, general corporate purposes and possible future acquisitions. As of the date of this prospectus, we have no arrangements, agreements or commitments for acquisitions of any businesses, products or technologies, and we can give no assurance that we will be able to consummate any acquisitions or strategic investments or that if consummated such acquisitions or investments would be on terms that are favorable to us.</p> <p>We will not receive any proceeds from the sale of shares by the selling stockholders.</p>
Proposed Nasdaq National Market symbol	"LQDT"

The share information in the table above is based on the number of shares outstanding as of September 30, 2005 and excludes:

- 75,000 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$2.00 per share;
- 913,285 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$2.53 per share; and
- 309,292 shares available for future issuance under our 2005 Stock Option and Incentive Plan.

Except as otherwise noted, all information in this prospectus:

- assumes that our shares of common stock will be sold at \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus;
- assumes the underwriters do not exercise their over-allotment option; and
- gives effect to the conversion of our outstanding shares of our Series C preferred stock into 3,262,643 shares of common stock, which will occur automatically upon the closing of this offering.

Summary Consolidated Financial Data

You should read the following summary consolidated financial data together with our consolidated financial statements and the related notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this prospectus.

	Year ended September 30,		
	2003	2004	2005
(dollars in thousands, except per share data)			
Consolidated Statements of Operations Data:			
Revenue	\$ 60,719	\$ 75,869	\$ 89,415
Costs and expenses:			
Cost of goods sold (excluding amortization)	5,090	4,710	5,614
Profit-sharing distributions	30,427	39,718	48,952
Technology and operations	10,490	14,168	15,369
Sales and marketing	3,057	4,265	5,504
General and administrative	5,810	6,046	7,397
Amortization of contract intangibles	1,862	—	135
Depreciation and amortization	465	531	586
	57,201	69,438	83,557
Income from operations	3,518	6,431	5,858
Interest expense and other income, net	(391)	(621)	(570)
	3,127	5,810	5,288
Income before provision for income taxes	3,127	5,810	5,288
Provision for income taxes	(351)	(541)	(1,166)
	2,776	5,269	4,122
Net income	\$ 2,776	\$ 5,269	\$ 4,122
Basic earnings per common share	\$ 0.19	\$ 0.31	\$ 0.22
Basic weighted average shares outstanding	14,428,121	16,865,313	19,036,373
Diluted earnings per common share	\$ 0.17	\$ 0.30	\$ 0.18
Diluted weighted average shares outstanding	15,930,840	17,597,391	22,570,939
Non-GAAP Financial Measures:			
EBITDA(1)	\$ 5,845	\$ 6,962	\$ 6,579
Adjusted EBITDA(1)	3,750	6,115	6,666
Adjusted profit-sharing distributions(2)	32,522	40,650	48,952
Adjusted net income(2)	\$ 681	\$ 4,337	\$ 4,122
Supplemental Operating Data:			
Gross merchandise value (3)	\$ 72,305	\$ 89,104	\$ 102,210
Completed transactions(4)	122,709	141,003	173,262
Total registered buyers(5)	149,876	264,089	385,975
Total auction participants(6)	551,572	670,834	848,204

The pro forma consolidated balance sheet data gives effect to the conversion of our outstanding Series C preferred stock into common stock upon the closing of this offering as if such conversion had taken place on September 30, 2005. The pro forma as adjusted consolidated balance sheet data gives effect to (1) our sale of shares of common stock in this offering at an assumed initial public price of \$ _____ per share which is the mid-point of the range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and (2) the repayment of \$4.4 million of our indebtedness.

	As of September 30, 2005		
	Actual	Pro forma	Pro forma as adjusted
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 10,378	\$ 10,378	\$
Working capital(7)	4,154	4,154	
Total assets	26,013	26,013	
Total liabilities	15,070	15,070	
Series C preferred stock	3	—	
Common stock	19	22	
Total stockholders' equity	10,943	10,943	

- (1) EBITDA and adjusted EBITDA are supplemental non-GAAP financial measures. GAAP means generally accepted accounting principles in the United States. EBITDA is equal to net income (loss) plus (a) interest expense and other income; (b) provision for income taxes; (c) amortization of contract intangibles; and (d) depreciation and amortization. Our definition of adjusted EBITDA is different from EBITDA because we further adjust EBITDA for: (a) stock based compensation expense; and (b) a portion of the SurplusBid.com acquisition payments, as described below under footnote 2. For a description of our use of EBITDA and adjusted EBITDA and a reconciliation of these non-GAAP financial measures to net income (loss), see the discussion and related table below.
- (2) In June 2001, we acquired certain assets and assumed certain liabilities of SurplusBid.com, Inc. and its affiliates for \$7.5 million, including SurplusBid.com's surplus contract with the DoD. The SurplusBid.com acquisition price was paid over 33 months in accordance with the terms of the purchase agreement. At the same time, we were awarded our current surplus contract with the DoD. Our surplus contract required monthly profit-sharing distributions under the contract to be reduced by the amount of the monthly SurplusBid.com acquisition payments. This resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income during the 33 month period from June 2001 to March 2004. The total amount of the SurplusBid.com acquisition payment was recorded as a note payable in our consolidated balance sheet in fiscal 2001, discounted to a present value of approximately \$6.5 million. The discount of approximately \$1 million was accreted as interest expense over the term of the acquisition payments.

As a result, we present two supplemental non-GAAP financial measures, adjusted distributions and adjusted net income, to eliminate the impact of the SurplusBid.com acquisition payments. These measures are prepared by increasing the profit-sharing distributions line item in our statements of operations by DoD's portion of the principal payments on the SurplusBid.com note payable made during each period (*i.e.*, approximately 80% of the principal payments). We do not add back the accreted interest portion of the SurplusBid.com acquisition payments when adjusting distributions and net income because the accreted interest is already included in interest expense and other income in our consolidated statements of operations. We believe adjusted profit-sharing

distributions and adjusted net income are useful to investors because they eliminate an item that we do not consider indicative of our core operating performance due to its temporary, non-recurring nature. We also believe it is important to provide investors with the same metrics used by management to measure core operating performance.

The table below reconciles distributions and net income to such item's adjusted presentation for the periods presented.

	Year ended September 30,		
	2003	2004	2005(a)
	(in thousands)		
Profit-sharing distributions	\$ 30,427	\$ 39,718	\$ 48,952
Adjustment	2,095	932	—
Adjusted profit-sharing distributions	<u>\$ 32,522</u>	<u>\$ 40,650</u>	<u>\$ 48,952</u>
Net income	\$ 2,776	\$ 5,269	\$ 4,122
Adjustment	(2,095)	(932)	—
Adjusted net income	<u>\$ 681</u>	<u>\$ 4,337</u>	<u>\$ 4,122</u>

(a) The final SurplusBid.com acquisition payment was made in March 2004 and therefore no adjustments were made in fiscal 2005.

- (3) Gross merchandise value is the total sales value of all merchandise sold through our marketplaces during a given period.
- (4) Completed transactions represents the number of auctions in a given period from which we have recorded revenue.
- (5) Total registered buyers as of a given date represents the aggregate number of persons or entities who have registered on one of our marketplaces.
- (6) For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times on that auction, and total auction participants for a given period is the sum of the auction participants in each auction conducted during that period.
- (7) Working capital is defined as current assets minus current liabilities.

We believe EBITDA and adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- The amortization of contract intangibles relate to the amortization of SurplusBid.com's surplus contract with the DoD during fiscal years 2001 to 2003, and amortization of the scrap contract beginning in June 2005. Depreciation and amortization expense primarily relates to property and equipment. Both of these expenses are non-cash charges that have significantly fluctuated over the past five years. As a result, we believe that adding back these non-cash charges to net income (loss) is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of substantial federal net operating loss carryforwards, or NOLs, we did not incur significant income tax expense until fiscal 2005. With the exhaustion of our remaining federal NOLs during fiscal 2005, we recorded federal income tax expense for the first time, thus significantly decreasing our fiscal 2005 net income relative to prior years. Consequently, we believe that presenting a financial measure that adjusts net income (loss) for provision for income taxes is useful to investors when evaluating the operating performance of our business.

- During July 2001, we modified the exercise price of 3,402,794 stock options issued to employees. As a result, we are accounting for the modified stock options from the date of modification to the date the stock options are exercised, forfeited or expire unexercised using variable accounting. Under variable accounting, we revalue compensation costs for the stock options at each reporting period based on changes in the intrinsic value of the stock options. We recorded \$85,010 and \$87,403, respectively in stock compensation expenses based on vesting of the fair value of the options for the years ended September 30, 2004 and 2005. We will continue to revalue compensation costs for the options based on changes in the fair value of our common stock in future periods. In addition, we will recognize the fair value of new share based payments issued subsequent to October 1, 2005 in our consolidated statements of operations, pursuant to the adoption of Statement of Financial Accounting Standards No. 123(R). As a result, we present a financial measure that adjusts net income (loss) and EBITDA for stock compensation expense because these measures are non-cash items that are not directly related to the core operating performance of our business.
- As discussed above, the requirement under our surplus contract with the DoD for monthly profit-sharing distributions to be reduced by the monthly SurplusBid.com acquisition payments resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income and EBITDA during the 33 month period from July 2001 to March 2004. As a result, we believe that it is useful to exclude a portion of these profit-sharing distributions from adjusted EBITDA because the payments will not recur in future periods and were unrelated to our core operations.
- We believe these measures are important indicators of our operational strength and the performance of our business because they provide a link between profitability and operating cash flow.
- We also believe that analysts and investors use EBITDA and adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses EBITDA and adjusted EBITDA:

- as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

EBITDA and adjusted EBITDA as calculated by us are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and adjusted EBITDA: (a) do not represent net income or cash flows from operating activities as defined by GAAP; (b) are not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as alternatives to net income, income from operations, cash provided by operating activities or our other financial information as determined under GAAP.

We prepare adjusted EBITDA by adjusting EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, adjusted EBITDA is subject to all of the limitations applicable to EBITDA. Our presentation of

adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The table below reconciles net income (loss) to EBITDA and adjusted EBITDA for the periods presented.

	Year ended September 30,		
	2003	2004	2005
	(in thousands)		
Net income	\$ 2,776	\$ 5,269	\$ 4,122
Interest expense and other income, net	391	621	570
Provision for income taxes	351	541	1,166
Amortization of contract intangibles	1,862	—	135
Depreciation and amortization	465	531	586
EBITDA	5,845	6,962	6,579
Stock compensation expense	—	85	87
Adjustment (1)	(2,095)	(932)	—
Adjusted EBITDA	\$ 3,750	\$ 6,115	\$ 6,666

(1) The adjustment amount for each period equals approximately 80% of the principal payments on the SurplusBid.com note payable made during each period, as described above in footnote 2. No payments were made in fiscal 2005.

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information in this prospectus, including the consolidated financial statements and related notes, before making a decision to invest in our common stock. If any of the following risks actually occurs, our business, financial condition or operating results could suffer. As a result, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock.

Risks Related to Our Business

We depend on contracts with the U.S. Department of Defense for a significant portion of our revenue, and if our relationship with this customer is disrupted, our business, financial condition and operating results would be materially adversely affected.

We have two material contracts with the Defense Reutilization and Marketing Service, or DRMS, under which we acquire, manage and sell surplus property of the U.S. Department of Defense, or DoD. The largest contract was awarded in June 2001 and relates to usable surplus property of the DoD turned into the DRMS and located in the United States, Puerto Rico and Guam, such as computers, electronics, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. The second contract was awarded in June 2005 and relates to substantially all scrap property of the DoD turned into the DRMS and located in the United States, such as metals, alloys and building materials. Our surplus contract accounted for approximately 95.8%, 91.0% and 87.5% of our revenue and 80.5%, 77.5% and 76.5% of our gross merchandise value for the fiscal years ended September 30, 2003, 2004 and 2005, respectively. Our recently awarded scrap contract represented less than 1% of our revenue and our gross merchandise value for the fiscal year ended September 30, 2005. We believe that these contracts will continue to be the source of a significant portion of our revenue and gross merchandise value during their terms. The surplus contract expires in June 2008. The scrap contract became operational in August 2005 and has a seven-year base term that expires in August 2012, subject to DoD's right to extend for three additional one-year terms. The contracts were awarded by DoD through a competitive bidding process, and we may be required to go through a new competitive bidding process when our existing contracts expire.

Although our contracts with DoD do not allow DoD to terminate for convenience, each contract requires us to meet specified performance benchmarks. The contracts may be terminated by DoD if rate of return performance ratios do not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. For the fiscal year ended September 30, 2005, our surplus contract performance ratio was more than double the required benchmark ratio. We cannot assure you that we will meet the performance benchmarks in the future. DoD also has the right, after giving us notice and a 30 day opportunity to cure, to terminate the contracts and seek other contract remedies in the event of material breaches.

If our relationship with DoD is impaired, we are not awarded new DoD contracts when our current contracts expire, any of our DoD contracts are terminated or the supply of assets under the contracts significantly decreased our business, financial condition and operating results would be materially adversely affected.

The success of our business depends on our ability to successfully obtain a supply of merchandise for our buyers and to attract and retain active professional buyers to create sufficient demand for our sellers.

Our ability to increase our revenue and maintain profitability depends on whether we can successfully expand the supply of merchandise available for sale on our online marketplaces and attract

and retain active professional buyers to purchase the merchandise. Our ability to attract sufficient quantities of suitable merchandise and new buyers will depend on various factors, some of which are out of our control. These factors include our ability to:

- offer sellers liquid marketplaces for their wholesale, surplus and salvage assets;
- offer buyers a sufficient supply of merchandise;
- develop and implement effective sales and marketing strategies;
- comply with regulatory or corporate seller requirements affecting marketing and disposition of certain categories of merchandise;
- efficiently catalogue, handle, store, ship and track merchandise; and
- achieve high levels of seller and buyer satisfaction with the trading experience.

We may not be able to compete successfully against existing or future competitors.

The online services market for auctioning or liquidating wholesale, surplus and salvage assets is competitive and growing rapidly. We currently compete with:

- other e-commerce providers, such as Amazon.com, GSI Commerce and Overstock.com;
- auction websites such as eBay, Yahoo! Auctions and uBid; and
- traditional liquidators and fixed-site auctioneers.

We expect our market to become even more competitive as traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of wholesale, surplus and salvage assets. In addition, manufacturers, retailers and government agencies may decide to create their own websites to sell their own wholesale, surplus and salvage assets and those of third parties. Competitive pressures could harm our business, financial condition and operating results.

Some of our other current and potential competitors have longer operating histories, larger client bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, some of these competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to website and systems development than we are able to do. Increased competition may result in reduced operating margins and loss of market share. We may not be able to compete successfully against current and future competitors.

If we fail to manage our growth effectively, our operating results could be adversely affected.

We have expanded our operations rapidly since our inception in 1999. In fiscal year 2005, we processed over 173,000 completed transactions, as compared to approximately 92,000 completed transactions in fiscal year 2002. Our growth continues to place a significant strain on our management systems and resources.

We plan to expand our operations by developing new or complementary services, products, or trading formats and enhancing the breadth and depth of our value-added services. We also plan to continue to expand our sales and marketing, technology and client support organizations. In addition, we will likely need to continue to improve our financial and management controls and our reporting

systems and procedures. If we are unable to effectively implement these plans and to otherwise manage our expanding operations, our operating results could be materially adversely affected.

Our business depends on the continued growth of the Internet and e-commerce.

The business of selling merchandise over the Internet, particularly through online trading, is dynamic and relatively new. Growth in the use of the Internet as a medium for consumer commerce may not continue. Concerns about fraud and privacy, increased costs of Internet service, Internet service disruptions and other problems may discourage consumers from engaging in e-commerce. In particular, many traditional buyers and sellers of wholesale, surplus and salvage goods still conduct much of their business in traditional live auctions that do not occur on the Internet, and those buyers and sellers may be hesitant to engage in e-commerce. If the e-commerce industry fails to grow or traditional buyers and sellers of wholesale, surplus and salvage assets are unwilling to conduct business on the Internet, our business could be harmed and our revenue may not increase.

Because we have a limited operating history in a rapidly evolving industry, it is difficult to evaluate our business and future operating results.

We commenced operations in early 2000 and, as a result, have only a limited operating history upon which you can evaluate our business and prospects. Although we have experienced significant revenue growth in recent periods, we may not be able to sustain this growth. We will encounter risks and difficulties frequently encountered by early-stage companies in rapidly evolving industries, such as the e-commerce industry. Some of these include risks arising from our need to:

- attract new buyers and sellers of wholesale, surplus and salvage assets and maintain current buyer and seller relationships;
- increase the level of activity and participation of our registered buyers;
- maintain sufficient transaction volumes to attract buyers and sellers;
- provide our customers with superior client support, value-added services and marketplace performance to maintain our reputation and build trust with our clients;
- continue to develop and upgrade the technologies and features that enable us to provide effective online services;
- identify, attract, retain and motivate qualified personnel;
- successfully implement our business model;
- manage our expanding operations;
- educate the market with our service offerings; and
- respond to evolving government regulations relating to the Internet, e-commerce, privacy, technology exports and other aspects of our business.

If we do not successfully address these risks, it could cause a significant decrease in our revenue and negatively affect our ability to generate net income.

Our quarterly operating results have fluctuated in the past and may do so in the future, which could cause volatility in our stock price.

Our prior operating results have fluctuated due to changes in our business and the e-commerce industry. Similarly, our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. You should not rely on period-to-period

comparisons of our operating results as an indication of our future performance. Factors that may affect our quarterly operating results include the following:

- the addition of new buyers and sellers or the loss of existing buyers and sellers;
- the volume, size, timing and completion rate of transactions in our marketplaces;
- changes in the supply and demand for and the volume, price, mix and quality of our supply of wholesale, surplus and salvage assets;
- introduction of new or enhanced websites, services or product offerings by us or our competitors;
- implementation of significant new contracts;
- changes in our pricing policies or the pricing policies of our competitors;
- changes in the conditions and economic prospects of the e-commerce industry or the economy generally, which could alter current or prospective buyers' and sellers' priorities;
- technical difficulties, including telecommunication system or Internet failures;
- changes in government regulation of the Internet and e-commerce industry;
- event-driven disruptions such as war, terrorism, disease and natural disasters;
- seasonal patterns in selling and purchasing activity; and
- costs related to acquisitions of technology or equipment.

Our operating results may fall below the expectations of market analysts and investors in some future periods. If this occurs, even temporarily, it could cause volatility in our stock price.

Our operating results depend on our websites, network infrastructure and transaction processing systems. Service interruptions or system failures could harm our business, financial condition and operating results.

Any system interruptions that affect our websites or our transaction systems could impair the services that we provide to our sellers and buyers. In addition, our systems may be vulnerable to damage from a variety of other sources, including telecommunications failures, power outages, malicious human acts and natural disasters. Improving the reliability and redundancy of our systems may be expensive, reduce our margins and may not be successful in preventing system failures. Our services are also substantially dependent on systems provided by third parties, over whom we have little control. We have occasionally experienced interruptions to our services due to system failures unrelated to our own systems. Any interruptions or failures of our current systems or our ability to communicate with third party systems could seriously harm our business, financial condition and operating results.

If we do not respond to rapid technological changes or upgrade our systems, our business, financial condition and operating results could suffer.

To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce business. We will need to improve and upgrade our technology, transaction processing systems and network infrastructure in order to allow our operations to grow in both size and scope. Without such improvements, our operations might suffer from unanticipated system disruptions, slow transaction processing, unreliable service levels, or impaired quality or delays in reporting accurate financial information, any of which could negatively affect our reputation and ability to attract and retain sellers and buyers. We may also face material delays in introducing new services, products and enhancements. The Internet and the e-commerce industry are rapidly changing. If competitors

introduce new products and services using new technologies or if new industry standards and practices emerge, our existing websites and our proprietary technology and systems may become obsolete. In addition, the expansion and improvement of our systems and infrastructure will require us to commit substantial financial, operational and technical resources, with no assurance our business will increase. If we fail to respond to technological change or to adequately maintain, expand, upgrade and develop our systems and infrastructure in a timely fashion our ability to grow could be limited and our business, financial condition and operating results could suffer.

Shipment of merchandise sold in our marketplaces could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers as a result.

We rely upon third party carriers such as United Parcel Services, or UPS, for timely delivery of our merchandise shipments. As a result, we are subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor difficulties, inclement weather, terrorist activity and increased fuel costs. In addition, we do not have a long-term agreement with UPS or any other third party carriers, and we cannot be sure that our relationship with UPS will continue on terms favorable to us, if at all. If our relationship with UPS is terminated or impaired or if UPS is unable to deliver merchandise for us, we would be required to use alternative carriers for the shipment of products to our buyers. We may be unable to engage alternative carriers on a timely basis or on terms favorable to us, if at all. Potential adverse consequences include:

- reduced visibility of order status and package tracking;
- delays in merchandise receipt and delivery;
- increased cost of shipment; and
- reduced shipment quality, which may result in damaged merchandise.

Any failure to receive merchandise at our distribution centers or deliver products to our buyers in a timely and accurate manner could lead to client dissatisfaction and cause us to lose sellers and buyers.

A significant interruption in the operations of our customer service system or our distribution centers could harm our business and operating results.

Our business depends, to a large degree, on effective customer service and distribution center operations. We currently manage DoD warehouse distribution space, for which we do not incur leasing costs as well as leased commercial warehouse distribution space. These operations could be harmed by several factors, including any material disruption or slowdown at our distribution centers resulting from labor disputes, changes in the terms of our underlying lease agreements or occupancy arrangements in the case of government provided facilities, telecommunications failures, power or service outages, human error, terrorist attacks, natural disasters or other events. In addition, space provided to us by DoD could be re-configured or reduced as a result of DoD's Base Relocation and Closure initiative or other infrastructure reduction initiatives. A disruption in our customer service and distribution operations could cause us to lose sellers and buyers, decrease our revenue and harm our operating results.

If our transaction models are not accepted by our clients or alternative transaction models are developed, we could lose clients and our revenue and our profitability could decline.

Our services are offered to sellers using the following two primary transaction models:

- consignment (in which we charge the seller a commission); and

- profit-sharing (in which we purchase merchandise from sellers and share profits).

We also collect a buyer's commission on substantially all completed transactions and may engage in outright purchases of client inventory. It is possible that new transaction models that are not compatible with our business model or our marketplaces may be developed and gain widespread acceptance. Alternative transaction models could cause our revenue and margins to decline. In addition, if current and potential customers do not recognize the benefits of our transaction models, activity in our marketplaces may decline or develop more slowly than we expect, which may limit our ability to grow our revenue or cause our revenue to decline.

We may be unable to adequately protect or enforce our intellectual property rights, which could harm our reputation and business.

We regard our intellectual property, particularly domain names, copyrights and trade secrets, as critical to our success. We rely on a combination of contractual restrictions and copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. Despite these protections, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorization or independently develop similar intellectual property.

We currently are the registered owners of several Internet domain names, including *www.liquidation.com*, *www.govliquidation.com*, *www.uksurplus.com* and *www.goWholesale.com*. We pursue the registration of our domain names in the U.S. and internationally. We currently do not have any patents or registered copyrights, trademarks or service marks, but we may pursue patents or registration of such intellectual property in the future. Effective patent, copyright, trademark, service mark, trade secret and domain name protection is expensive to maintain and may require litigation. We seek to protect our domain names in an increasing number of jurisdictions and may not be successful in certain jurisdictions. Our competitors may adopt trade names or domain names similar to ours, thereby impeding our ability to promote our marketplaces and possibly leading to client confusion. In addition, there could be potential trade name or trademark or service mark infringement claims brought by owners of other registered or unregistered trademarks or service marks, including trademarks or service marks that may incorporate variations of our marketplace names. Any claims related to our intellectual property or client confusion related to our marketplaces could damage our reputation and substantially harm our business.

Our inability to use software licensed from third parties or our use of open source software under license terms that interfere with our proprietary rights could disrupt our business.

We use software licensed from third parties, including some software, known as open source software, that we use without charge. In the future, these licenses may not be available on terms that are acceptable to us, or at all. Our inability to use third-party software could result in disruptions to our business, or delays in the development of future services or enhancements of existing services, which could impair our business. In addition, the terms of open source software licenses may require us to provide modified versions of the open source, which we develop if any, or software that incorporates all or a portion of the open source software to others on unfavorable license terms.

Assertions that we infringe on intellectual property rights of others could result in significant costs and substantially harm our business and operating results.

Other parties may assert that we have infringed their technology or other intellectual property rights. We use internally developed systems and licensed technology to operate our online auction platform and related websites. Third parties could assert intellectual property infringement claims against us based on our internally developed systems or use of licensed third party technology. Third

parties also could assert intellectual property infringement claims against parties from whom we license technology. If we are forced to defend against any infringement claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel and/or delays in completion of sales. Furthermore, the outcome of a dispute may be that we would need to change technology, develop non-infringing technology or enter into royalty or licensing agreements. A switch to different technology could cause interruptions in our business. Internal development of a non-infringing technology may be expensive and time-consuming, if we are able to successfully develop such technology at all. Royalty or licensing agreements, if required, may be unavailable on terms acceptable to us, or at all.

If we do not retain our senior management, we may not be able to achieve our business objectives.

Our future success is substantially dependent on the continued service of our senior management, particularly William P. Angrick, III, our chief executive officer, Jaime Mateus-Tique, our chief operating officer, and Benjamin Brown, chairman of our LSI Technology Advisory Committee and chief technology officer of our Government Liquidation subsidiary. We do not have key-person insurance on any of our officers or employees. The loss of any member of our existing senior management team could damage key seller relationships, result in the loss of key information, expertise or know-how, lead to unanticipated recruitment and training costs and make it more difficult to successfully operate our business and achieve our business goals.

If we are unable to attract and retain skilled employees, we might not be able to sustain our growth.

Our future success depends on our ability to continue to attract, retain and motivate highly skilled employees, particularly employees with sales, marketing, operations and technology expertise. Competition for employees in our industry is intense. We have experienced difficulty from time to time in attracting the personnel necessary to support the growth of our business, and we may experience similar difficulties in the future. If we are unable to attract, assimilate and retain employees with the necessary skills, we may not be able to grow our business.

Unfavorable government audit results could force us to adjust previously reported operating results and could subject us to a variety of penalties and sanctions.

The U.S. federal government has the right to audit and review our performance on our government contracts, as well as our compliance with applicable laws and regulations. Any adverse findings from audits or reviews could result in a significant adjustment to our previously reported operating results. For example, our DoD contracts provide that we share sales profits with the government. The federal government may disagree with our calculation of the profits realized from the sales of government surplus assets and may require us to increase sharing payments to the government. If this occurs, our operating margins may be reduced.

If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety are made against us, whether or not true. If we are suspended or debarred from contracting with the federal government generally, or any specific agency, if our reputation or relationship with government agencies is impaired, or if the government otherwise ceases doing business with us or significantly decreases the amount of business it does with us, our business, financial condition and operating results would be materially adversely affected.

Our international operations subject us to additional risks and challenges that could harm our business and our profitability.

We have begun expanding internationally, and in the future we may do so more aggressively. International operations subject us to additional risks and challenges, including:

- the need to develop new seller and buyer relationships;
- difficulties and costs of staffing and managing foreign operations;
- changes in and differences between domestic and foreign regulatory requirements;
- price controls and foreign currency exchange rate fluctuations;
- difficulties in complying with export restrictions and import permits;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences;
- lower per capita Internet usage and lack of appropriate infrastructure to support widespread Internet usage;
- political and economic instability; and
- tariffs and other trade barriers.

We cannot assure you that we will be successful in our efforts in foreign countries. Some of these factors may cause our international costs to exceed our domestic costs of doing business. Failure to adequately address these risks could adversely affect our business, financial condition and operating results.

We may make acquisitions that require significant resources and could be unsuccessful.

In the future, we may acquire other businesses, products and technologies to complement our current business. We may not be able to identify, negotiate, finance, complete or integrate any future acquisition successfully. Acquisitions involve a number of risks, including possible adverse effects on our operating results, diversion of management's attention, inability to retain key employees of the acquired business and risks associated with unanticipated events or liabilities, some or all of which could disrupt our business and reduce the likelihood that we will receive the anticipated benefits of the acquisition in the amount or the time frame that we expect.

Should we be unable successfully to integrate a new business, we could be required either to dispose of the operation or restructure the operation. In either event, our business could be adversely affected. In addition, future transactions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and operating results. Future transactions may also require us to obtain additional financing, which may not be available on favorable terms or at all.

We may need additional financing in the future, which may not be available on favorable terms, if at all.

We may need additional funds to finance our operations, as well as to enhance our services, fund our expansion, respond to competitive pressures or acquire complementary businesses or technologies. However, our business may not generate the cash needed to finance such requirements. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders would be reduced, and these securities may have rights, preferences or

privileges senior to those of our common stock. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our services, fund our expansion, respond to competitive pressures or take advantage of business opportunities would be significantly limited, and we might need to significantly restrict our operations.

We face legal uncertainties relating to the Internet in general and to the e-commerce industry in particular and may become subject to costly government regulation.

The laws and regulations related to the Internet and e-commerce are evolving. These laws and regulations relate to issues such as user privacy, freedom of expression, pricing, fraud, quality of products and services, taxation, advertising, intellectual property rights and information security. Laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel and defamation, obscenity and personal privacy could also affect our business. Laws adopted prior to the advent of the Internet may not contemplate or address the unique issues of the Internet and related technologies and it is not clear how they will apply. Current and future laws and regulations could increase our cost of doing business and/or decrease the demand for our services.

Our auction business may be subject to a variety of additional costly government regulations.

Many states and other jurisdictions have regulations governing the conduct of traditional "auctions" and the liability of traditional "auctioneers" in conducting auctions, which may apply to online auction services. In addition, certain states have laws or regulations that expressly apply to online auction services. We expect to incur costs in complying with these laws and could be subject to fines or other penalties for any failure to comply with these laws. We may be required to make changes in our business to comply with these laws, which could increase our costs, reduce our revenue, cause us to prohibit the listing of certain items, or otherwise adversely affect our financial condition or operating results.

In addition, the law regarding the potential liability of an online auction service for the activities of its users is not clear. We cannot assure you that users of our websites will comply with our terms and conditions or with laws and regulations applicable to them and their transactions. It is possible that we may be subject to allegations of civil or criminal liability for any unlawful activities conducted by sellers or buyers. Any costs we incur as a result of any such allegations, or as a result of actual or alleged unlawful transactions using our marketplaces, or in our efforts to prevent any such transactions, may harm our business. In addition, any negative publicity we receive regarding any such transactions or allegations may damage our reputation, our ability to attract new sellers and buyers and our business.

Certain categories of merchandise sold on our marketplaces are subject to government restrictions.

We sell merchandise, such as scientific instruments, information technology equipment and aircraft parts, that is subject to export control and economic sanctions laws, among other restrictions, imposed by the United States and other governments. Such restrictions include the U.S. Export Administration Regulations, the International Traffic in Arms Regulations, and the Foreign Assets Control Regulations, among others. We may incur significant costs or be required to modify our business to comply with these requirements. If we are alleged to have violated any of these laws or regulations we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety are made against us, whether or not true.

Our business may be harmed if third parties misappropriate our clients' confidential information.

We retain highly confidential information on behalf of our clients in our systems and databases. Although we maintain security features in our systems, our operations may be susceptible to hacker interception, break-ins and other disruptions. These disruptions may jeopardize the security of information stored in and transmitted through our systems. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. These issues are likely to become more difficult as we expand our operations. If any compromise of our security were to occur, our reputation, business, financial condition and operating results could be harmed by the misappropriation of confidential client information. In addition, if there is any perception that we cannot protect our clients' confidential information, our business may suffer harm.

If we fail to comply with increasing levels of regulation relating to privacy, our business could suffer harm.

We are subject to increasing regulation at the federal, state and international levels relating to privacy and the use of personal user information. In addition, several states have proposed or enacted legislation to limit uses of personal information gathered online or require online services to establish privacy policies. Data protection regulations and enforcement efforts may restrict our ability to collect demographic and personal information from users, which could be costly or harm our marketing efforts. Such regulations, along with increased government or private enforcement, may increase the cost of growing our business and require us to expend significant capital and other resources. Our failure to comply with these federal, state and international laws and regulations could subject us to lawsuits, fines, criminal penalties, statutory damages, adverse publicity and other costs that would harm our business.

If one or more states successfully assert that we should collect sales or other taxes on the sale of our merchandise or the merchandise of third parties that we offer for sale on our websites, our business could be harmed.

We are currently required to pay sales taxes in all states for shipment of goods from our DoD contracts. We also pay sales or other similar taxes in respect of shipments of other goods into states in which we have a substantial presence. In addition, as we grow our business, any new operation in states in which we currently do not pay sales taxes could subject shipments into such states to state sales taxes under current or future laws.

In November 2004, the federal government passed legislation placing a three-year ban on state and local governments' imposition of new taxes on Internet access or electronic commerce transactions. This ban does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules. Unless the ban is extended, state and local governments may begin to levy additional taxes on Internet access and electronic commerce transactions upon the legislation's expiration in November 2007. An increase in taxes may make electronic commerce transactions less attractive for merchants and businesses, which could result in a decrease in the level of demand for our services.

Currently, decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales. If any of these initiatives resulted in a reversal of the Supreme Court's current position, we could be required to collect sales and use taxes in states other than states in which we currently pay such taxes. A successful assertion by one or more local, state or foreign jurisdictions that the sale of merchandise by us is subject to sales or other taxes, could subject us to material liabilities and, to the extent that we pass such costs on to our clients, could harm our business and decrease our revenue.

Fraudulent activities involving our websites and disputes relating to transactions on our websites may harm our business.

We are aware that other companies operating online auction or liquidation services have periodically received complaints of fraudulent activities of buyers or sellers on their websites. We may receive similar complaints if sellers or buyers trading in our marketplaces are alleged to have engaged in fraudulent or unlawful activity. In addition, we may suffer losses as a result of purchases paid for with fraudulent credit card data even though the associated financial institution approved payment. In the case of disputed transactions, we may not be able to require users of our services to fulfill their obligations to make payments or to deliver goods. We also may receive complaints from buyers about the quality of purchased goods, requests for reimbursement, or communications threatening or commencing legal actions against us. Negative publicity generated as a result of fraudulent conduct by third parties or the failure to satisfactorily settle disputes related to transactions on our websites could damage our reputation and business.

False or defamatory statements transmitted through our services could adversely affect our business.

The law relating to the liability of online services companies for information carried on or disseminated through their services is currently unsettled. Claims could be made against online services companies under both the U.S. and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Our goWholesale.com website allows users to make comments regarding the online auction industry in general and other users and their merchandise in particular. Although all such comments are generated by users and not by us, we are aware that claims of defamation or other injury have been made against other companies operating auction services in the past and could be made in the future against us for comments made by users. If we are held liable for information provided by our users and carried on our service, we could be directly harmed and may be forced to implement measures to reduce our liability. This may require us to expend substantial resources or discontinue certain service offerings, which could negatively affect our operating results. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business.

Risks Related to This Offering

We cannot assure you that a market will develop for our common stock or what the market price of our common stock will be.

Before this offering, there was no public trading market for our common stock, and we cannot assure you that one will develop or be sustained after this offering. The initial public offering price will be determined by negotiations between the underwriters and us, and may bear no relationship to the price at which the common stock will trade upon completion of the offering. You may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

The market prices of the securities of e-commerce companies and for initial public offerings have been extremely volatile and have overall declined significantly since early 2000. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;

- changes in financial estimates by us or by a securities analyst who covers our stock;
- publication of research reports about our company or industry;
- conditions or trends in our industry;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those whose business involves the Internet and e-commerce;
- announcements by us or our competitors of significant contracts, acquisitions, commercial relationships, strategic partnerships or divestitures;
- announcements by us or our competitors of technological innovations, new services or service enhancements;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- the passage of legislation or other regulatory developments that adversely affect us, our clients or our industry;
- additions or departures of key personnel;
- sales of our common stock, including sales of our common stock by our directors and officers or specific stockholders; and
- general economic conditions and slow or negative growth of related markets.

Volatility in the market price of shares may prevent investors from being able to sell their shares of common stock at or above our initial public offering price. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Future sales of our common stock could cause our stock price to decline.

Upon completion of this offering, our existing stockholders will beneficially own approximately _____ shares of our common stock, which will be approximately _____ % of our outstanding common stock. We and our officers, directors and our existing stockholders representing substantially all of our shares are subject to the lock-up agreements described in the "Underwriting" section and a lock-up period of 180 days after the date of this prospectus. After the expiration of this 180-day period, approximately _____ of these shares of common stock will be eligible for sale in the public market pursuant to Rule 144 under the Securities Act of 1933, or the Securities Act. Friedman, Billings, Ramsey & Co., Inc. and RBC Capital Markets Corporation, on behalf of the underwriters, may release our directors, officers and stockholders from their lock-up agreements with the underwriters at any time and without notice, which would allow for earlier sale of shares in the public market. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market following this offering, the market price of our common stock could decline. These sales, or the perception that these sales could occur, might also make it more difficult for you to sell your shares at a time and price that you deem appropriate and for us to sell additional equity securities at a time and price that we deem appropriate.

In addition to the foregoing, we had options and warrants to purchase approximately 252,918 shares of common stock outstanding and exercisable as of September 30, 2005. We intend to register the shares of common stock issuable or reserved for issuance under our equity plans within 180 days after the date of this prospectus.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

Prior investors have paid substantially less per share than the price in this offering. The initial public offering price is substantially higher than the pro forma net tangible book value per share of the outstanding common stock immediately after this offering. As a result, investors purchasing our common stock in this offering will incur immediate dilution of \$ _____ per share. The exercise of outstanding options and warrants and future equity issuances at prices below the initial public offering price would result in further dilution to purchasers in this offering. For a further description of the dilution that investors purchasing common stock in this offering will experience, please see "Dilution."

Insiders will continue to have substantial control over us after this offering, which could limit your ability to influence the outcome of key transactions, including a change in control.

Our principal stockholders, directors and executive officers and entities affiliated with them will own approximately _____ % of the outstanding shares of our common stock after this offering. As a result, these stockholders, acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. These stockholders may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interest. The concentration of ownership could have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and could ultimately affect the market price of our common stock.

Our costs will increase significantly as a result of operating as a public company, and our management will be required to devote substantial time to comply with public company regulations.

We have never operated as a public company. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. These expenses are associated with our public company reporting requirements and recently adopted corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the SEC, the Public Company Accounting Oversight Board and the Nasdaq National Market, or Nasdaq. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a public company or the timing of such costs.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Upon completion of this offering, we will become subject to the periodic reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be

circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

Because we have operated as a private company, we have limited experience attempting to comply with public company obligations, including Section 404 of the Sarbanes-Oxley Act of 2002.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC has adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 10-K for our fiscal year ending on September 30, 2007.

We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Also, we may in the future discover areas of our internal controls that need improvement. We cannot be certain that any remedial measures we take will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal controls over financial reporting, or if our independent auditors are unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of September 30, 2007 and future year ends as required by Section 404, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock. Failure to comply with Section 404 could potentially subject us to sanctions or investigations by the SEC, Nasdaq or other regulatory authorities.

We do not expect to pay any dividends on our common stock for the foreseeable future.

We do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. Accordingly, investors must rely on sales of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

We will have broad discretion over the use of proceeds from this offering, and we may not use these proceeds effectively, which could affect our operating results and cause our stock price to decline.

We will have broad discretion to use the net proceeds to us from this offering, and you will be relying on the judgment of our board of directors and management regarding the application of these proceeds. Although we expect to use a portion of the net proceeds from this offering for working capital, general corporate purposes, and possible future acquisitions, we have not allocated these net proceeds for specific purposes or acquisitions. It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for our company and that we will not be able to find suitable acquisition candidates at attractive prices.

Some provisions of our charter, bylaws and Delaware law inhibit potential acquisition bids that you may consider favorable.

Our corporate documents and Delaware law contain provisions that may enable our board of directors to resist a change in control of our company even if a change in control were to be considered favorable by you and other stockholders. These provisions include:

- a staggered board of directors;
- a prohibition on actions by our stockholders by written consent;
- limitations on persons authorized to call a special meeting of stockholders;
- the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- advance notice procedures required for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and
- the requirement that board vacancies be filled by a majority of our directors then in office.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or consolidating with us except under certain circumstances.

These provisions could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under "Risk Factors" and elsewhere in this prospectus. You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this prospectus. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this prospectus, including but not limited to those under the heading "Risk Factors." There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements included in this prospectus. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

The net proceeds from our sale of _____ shares of common stock in this offering are estimated to be approximately \$ _____ million, assuming an initial public offering price of \$ _____ per share, which is the mid-point of the estimated price range shown on the cover of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, payable by us. We will not receive any proceeds from the sale of shares by selling stockholders. We intend to use the net proceeds from this offering for the repayment of \$4.4 million of our indebtedness, working capital, general corporate purposes and possible future acquisitions.

The amounts that we actually expend for working capital and other general corporate purposes will vary significantly depending on a number of factors, including future revenue growth, if any, and the amount of cash that we generate from operations. As a result, we will retain broad discretion over the allocation of the net proceeds of this offering. We also may use a portion of the net proceeds for the acquisition of businesses, products and technologies. We periodically review acquisitions and strategic investment opportunities that are related to our business, and we believe that it is desirable to have funds on hand so that we have the ability to make acquisitions and strategic investments promptly. As of the date of this prospectus, we have no arrangements, agreements or commitments for acquisitions of any businesses, products or technologies, and we can give no assurance that we will be able to consummate any acquisitions or strategic investments or that if consummated such acquisitions or investments would be on terms that are favorable to us.

Pending these uses, we will invest the net proceeds of this offering in short-term interest bearing investment grade securities.

DIVIDEND POLICY

We currently anticipate that we will retain any future earnings for use in our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and restrictions contained in future financing instruments.

In connection with our Series C preferred stock financing in September 2004, we declared and paid a special dividend in the aggregate amount of approximately \$20 million to all holders of our common stock and our Series A and Series B preferred stock. Each holder of common stock was paid a dividend of \$1.05 per share.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2005:

- on an actual basis;
- on a pro forma basis to give effect to the conversion of our outstanding Series C preferred stock into common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to give effect to (1) our sale of shares of common stock in this offering at an assumed initial public offering price of \$ _____ per share which is the mid-point of the range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and (2) the repayment of \$4.4 million of our indebtedness.

You should read this table together with the information under the headings "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as the audited consolidated financial statements and related notes contained elsewhere in this prospectus.

	As of September 30, 2005		
	Actual	Pro forma	Pro forma as adjusted
	(in thousands)		
Cash and cash equivalents	\$ 10,378	\$ 10,378	\$ _____
Total debt and capital lease obligations, including current portion	4,503	4,503	
Stockholders' equity:			
Series C preferred stock with a \$20,000,000 liquidation preference, \$.001 par value; 3,262,643 shares authorized; 3,262,643 shares issued and outstanding, actual; none issued and outstanding, pro forma and pro forma as adjusted	3	—	
Common stock, \$.001 value; 26,737,357 shares authorized; 19,025,971 shares issued and outstanding, actual; 22,288,614 shares issued and outstanding, pro forma; and _____ shares issued and outstanding, pro forma as adjusted	19	22	
Additional paid-in capital	9,412	9,412	
Accumulated other comprehensive loss	(24)	(24)	
Retained earnings	1,533	1,533	
Total stockholders' equity	10,943	10,943	
Total capitalization	\$ 15,446	\$ 15,446	\$ _____

The table above excludes the following shares of common stock:

- 75,000 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$2.00 per share;
- 913,285 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$2.53 per share; and
- 309,292 shares available for future issuance under our 2005 Stock Option and Incentive Plan.

DILUTION

Dilution is the amount by which the initial offering price paid by the purchasers of common stock in this offering exceeds the net tangible book value per share of common stock following this offering. Our pro forma net tangible book value per share represents our pro forma tangible assets, or total assets less intangible assets, less our total liabilities, divided by the number of shares of our common stock outstanding as of September 30, 2005 after giving effect to the conversion of our outstanding Series C preferred stock into common stock. As of September 30, 2005 our pro forma net tangible book value was approximately \$1.6 million or \$0.07 per share of common stock.

After giving effect to (1) the sale of _____ shares of common stock by us at the assumed initial public offering price of \$ _____ per share, and after deducting the underwriting discounts, commissions and estimated offering expenses payable by us, and (2) the repayment of \$4.4 million of our indebtedness, our pro forma as adjusted net tangible book value at September 30, 2005 would have been approximately \$ _____ million or \$ _____ per share of common stock. After giving effect to the offering, our pro forma as adjusted net tangible book value represents an immediate increase in the pro forma net tangible book value of \$ _____ per share to existing stockholders and an immediate dilution in the pro forma as adjusted net tangible book value of \$ _____ per share to the investors who purchase our common stock in this offering.

The following table illustrates this per share dilution:

Assumed initial public offering price per share		\$
Pro forma net tangible book value per share as of September 30, 2005	\$	0.07
Increase in pro forma net tangible book value per share attributable to this offering		
Pro forma net tangible book value per share as adjusted after this offering		
Dilution per share to new investors		\$

The following table summarizes, on a pro forma as adjusted basis as of September 30, 2005, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by our existing stockholders and by the investors purchasing shares of common stock in this offering. The calculation below is based on an assumed initial public offering price of \$ _____ per share before deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Number	Percent	
Existing stockholders		%	\$	%	\$
New investors					
Total		100%	\$	100%	\$

The share amounts in this table exclude:

- 75,000 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$2.00 per share;
- 913,285 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$2.53 per share; and
- 309,292 shares available for future issuance under our 2005 Stock Option and Incentive Plan.

To the extent that any options or warrants are exercised, there will be further dilution to new investors. If all of our outstanding options and warrants as of September 30, 2005 had been exercised, the pro forma as adjusted net tangible book value per share after this offering would be \$ _____ per share, representing an immediate increase in net tangible book value of \$ _____ per share to our existing stockholders and an immediate decrease in the net tangible book value to our new investors of \$ _____.

To the extent that the underwriters exercise their over-allotment option, there will be further dilution to the new public investors. If the underwriters exercise the option in full, the number of shares held by new investors will increase to _____, or _____ % of the total number of shares of common stock outstanding after this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data together with our consolidated financial statements and the related notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this prospectus. The consolidated statement of operations data for the years ended September 30, 2003, 2004 and 2005, and the consolidated balance sheet data as of September 30, 2004 and 2005, are derived from, and are qualified by reference to, our consolidated financial statements that have been audited by Ernst & Young LLP, independent registered public accounting firm, and that are included in this prospectus.

	Nine months ended September 30, 2001	Year ended September 30,			
		2002	2003	2004	2005
(dollars in thousands, except per share data)					
Consolidated Statements of Operations Data:					
Revenue	\$ 7,050	\$ 44,463	\$ 60,719	\$ 75,869	\$ 89,415
Costs and expenses:					
Cost of goods sold (excluding amortization)	628	4,876	5,090	4,710	5,614
Profit-sharing distributions	2,000	17,717	30,427	39,718	48,952
Technology and operations	2,865	9,849	10,490	14,168	15,369
Sales and marketing	2,329	1,964	3,057	4,265	5,504
General and administrative	3,058	5,673	5,810	6,046	7,397
Amortization of contract intangibles	670	2,483	1,862	—	135
Depreciation and amortization	265	408	465	531	586
Total costs and expenses	11,815	42,970	57,201	69,438	83,557
Income (loss) from operations	(4,765)	1,493	3,518	6,431	5,858
Interest expense and other income, net	(92)	(169)	(391)	(621)	(570)
Income before provision for income taxes	(4,857)	1,324	3,127	5,810	5,288
Provision for income taxes	—	—	(351)	(541)	(1,166)
Net income (loss)	\$ (4,857)	\$ 1,324	\$ 2,776	\$ 5,269	\$ 4,122
Basic earnings per common share	\$ (0.25)	\$ 0.10	\$ 0.19	\$ 0.31	\$ 0.22
Basic weighted average shares outstanding	19,310,208	13,561,073	14,428,121	16,865,313	19,036,373
Diluted earnings per common share	\$ (0.14)	\$ 0.07	\$ 0.17	\$ 0.30	\$ 0.18
Diluted weighted average shares outstanding	34,528,638	18,107,552	15,930,840	17,597,391	22,570,939
Non-GAAP Financial Measures:					
EBITDA(1)	\$ (3,830)	\$ 4,384	\$ 5,845	\$ 6,962	\$ 6,579
Adjusted EBITDA(1)	(4,126)	2,485	3,750	6,115	6,666
Adjusted profit-sharing distributions(2)	2,296	19,616	32,522	40,650	48,952
Adjusted net income (loss)(2)	\$ (5,153)	\$ (575)	\$ 681	\$ 4,337	\$ 4,122
Supplemental Operating Data:					
Gross merchandise value(3)	\$ 7,997	\$ 49,209	\$ 72,305	\$ 89,104	\$ 102,210
Completed transactions(4)	N/A	92,060	122,709	141,003	173,262
Total registered buyers(5)	N/A	69,027	149,876	264,089	385,975
Total auction participants(6)	N/A	403,976	551,572	670,834	848,204

N/A—Not available

	2001	2002	2003	2004	2005
(dollars in thousands, except per share data)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 2,901	\$ 5,654	\$ 10,450	\$ 12,178	\$ 10,378
Working capital(7)	(1,586)	(1,683)	3,780	7,021	4,154
Total assets	10,661	11,113	13,715	17,711	26,013
Total liabilities	10,148	10,362	9,984	10,657	15,070
Series C preferred stock	—	—	—	3	3
Common stock	18	12	16	19	19
Total stockholders' equity	513	751	3,731	7,054	10,943

- (1) EBITDA and adjusted EBITDA are supplemental non-GAAP financial measures. GAAP means generally accepted accounting principles in the United States. EBITDA is equal to net income (loss) plus (a) interest expense and other income; (b) provision for income taxes; (c) amortization of contract intangibles; and (d) depreciation and amortization. Our definition of adjusted EBITDA is different from EBITDA because we further adjust EBITDA for: (a) stock based compensation expense; and (b) a portion of the SurplusBid.com acquisition payments, as described below under footnote 2. For a description of our use of EBITDA and adjusted EBITDA and a reconciliation of these non-GAAP financial measures to net income (loss), see the discussion and related table below.
- (2) In June 2001, we acquired certain assets and assumed certain liabilities of SurplusBid.com, Inc. and its affiliates for \$7.5 million, including SurplusBid.com's surplus contract with the DoD. The SurplusBid.com acquisition price was paid over 33 months in accordance with the terms of the purchase agreement. At the same time, we were awarded our current surplus contract with the DoD. Our surplus contract required monthly profit-sharing distributions under the contract to be reduced by the amount of the monthly SurplusBid.com acquisition payments. This resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income during the 33 month period from June 2001 to March 2004. The total amount of the SurplusBid.com acquisition payment was recorded as a note payable in our consolidated balance sheet in fiscal 2001, discounted to a present value of approximately \$6.5 million. The discount of approximately \$1 million was accreted as interest expense over the term of the acquisition payments.

As a result, we present two supplemental non-GAAP financial measures, adjusted distributions and adjusted net income, to eliminate the impact of the SurplusBid.com acquisition payments. These measures are prepared by increasing the profit-sharing distributions line item in our statements of operations by DoD's portion of the principal payments on the SurplusBid.com note payable made during each period (*i.e.*, approximately 80% of the principal payments). We do not add back the accreted interest portion of the SurplusBid.com acquisition payments when adjusting distributions and net income because the accreted interest is already included in interest expense and other income in our consolidated statements of operations. We believe adjusted profit-sharing distributions and adjusted net income are useful to investors because they eliminate an item that we do not consider indicative of our core operating performance due to its temporary, non-recurring nature. We also believe it is important to provide investors with the same metrics used by management to measure core operating performance.

The table below reconciles distributions and net income to such item's adjusted presentation for the periods presented.

	Nine months ended September 30, 2001	Year ended September 30,			
		2002	2003	2004	2005(a)
(in thousands)					
Profit-sharing distributions	\$ 2,000	\$ 17,717	\$ 30,427	\$ 39,718	\$ 48,952
Adjustment	296	1,899	2,095	932	—
Adjusted profit-sharing distributions	\$ 2,296	\$ 19,616	\$ 32,522	\$ 40,650	\$ 48,952
Net income (loss)	\$ (4,857)	\$ 1,324	\$ 2,776	\$ 5,269	\$ 4,122
Adjustment	(296)	(1,899)	(2,095)	(932)	—
Adjusted net income (loss)	\$ (5,153)	\$ (575)	\$ 681	\$ 4,337	\$ 4,122

- (a) The final SurplusBid.com acquisition payment was made in March 2004 and therefore no adjustments were made in fiscal 2005.

- (3) Gross merchandise value is the total sales value of all merchandise sold through our marketplaces during a given period.
- (4) Completed transactions represents the number of auctions in a given period from which we have recorded revenue.

- (5) Total registered buyers as of a given date represents the aggregate number of persons or entities who have registered on one of our marketplaces.
- (6) For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times on that auction, and total auction participants for a given period is the sum of the auction participants in each auction conducted during that period.
- (7) Working capital is defined as current assets minus current liabilities.

We believe EBITDA and adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- The amortization of contract intangibles relate to the amortization of SurplusBid.com's surplus contract with the DoD during fiscal years 2001 to 2003, and amortization of the scrap contract beginning in June 2005. Depreciation and amortization expense primarily relates to property and equipment. Both of these expenses are non-cash charges that have significantly fluctuated over the past five years. As a result, we believe that adding back these non-cash charges to net income (loss) is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of substantial federal net operating loss carryforwards, or NOLs, we did not incur significant income tax expense until fiscal 2005. With the exhaustion of our remaining federal NOLs during fiscal 2005, we recorded federal income tax expense for the first time, thus significantly decreasing our fiscal 2005 net income relative to prior years. Consequently, we believe that presenting a financial measure that adjusts net income (loss) for provision for income taxes is useful to investors when evaluating the operating performance of our business.
- During July 2001, we modified the exercise price of 3,402,794 stock options issued to employees. As a result, we are accounting for the modified stock options from the date of modification to the date the stock options are exercised, forfeited or expire unexercised using variable accounting. Under variable accounting, we revalue compensation costs for the stock options at each reporting period based on changes in the intrinsic value of the stock options. We recorded \$85,010 and \$87,403, respectively in stock compensation expenses based on vesting of the fair value of the options for the years ended September 30, 2004 and 2005. We will continue to revalue compensation costs for the options based on changes in the fair value of our common stock in future periods. In addition, we will recognize the fair value of new share based payments issued subsequent to October 1, 2005 in our consolidated statements of operations, pursuant to the adoption of Statement of Financial Accounting Standards No. 123(R). As a result, we present a financial measure that adjusts net income (loss) and EBITDA for stock compensation expense because these measures are non-cash items that are not directly related to the core operating performance of our business.
- As discussed above, the requirement under our surplus contract with the DoD for monthly profit-sharing distributions to be reduced by the monthly SurplusBid.com acquisition payments resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income and EBITDA during the 33 month period from July 2001 to March 2004. As a result, we believe that it is useful to exclude a portion of these profit-sharing distributions from adjusted EBITDA because the payments will not recur in future periods and were unrelated to our core operations.
- We believe these measures are important indicators of our operational strength and the performance of our business because they provide a link between profitability and operating cash flow.
- We also believe that analysts and investors use EBITDA and adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses EBITDA and adjusted EBITDA:

- as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

EBITDA and adjusted EBITDA as calculated by us are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and adjusted EBITDA: (a) do not represent net income or cash flows from operating activities as defined by GAAP; (b) are not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as alternatives to net income, income from operations, cash provided by operating activities or our other financial information as determined under GAAP.

We prepare adjusted EBITDA by adjusting EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, adjusted EBITDA is subject to all of the limitations applicable to EBITDA. Our presentation of adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The table below reconciles net income (loss) to EBITDA and adjusted EBITDA for the periods presented.

	Nine months ended September 30, 2001	Year ended September 30,			
		2002	2003	2004	2005
(in thousands)					
Net income (loss)	\$ (4,857)	\$ 1,324	\$ 2,776	\$ 5,269	\$ 4,122
Interest expense and other income, net	92	169	391	621	570
Provision for income taxes	—	—	351	541	1,166
Amortization of contract intangibles	670	2,483	1,862	—	135
Depreciation and amortization	265	408	465	531	586
EBITDA	(3,830)	4,384	5,845	6,962	6,579
Stock compensation expense	—	—	—	85	87
Adjustment (1)	(296)	(1,899)	(2,095)	(932)	—
Adjusted EBITDA	\$ (4,126)	\$ 2,485	\$ 3,750	\$ 6,115	\$ 6,666

(1) The adjustment amount for each period equals approximately 80% of the principal payments on the SurplusBid.com note payable made during each period, as described above in footnote 2. No payments were made in fiscal 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and the information contained under the caption "Selected Consolidated Financial Data" contained elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could vary materially from those indicated, implied, or suggested by these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this prospectus.

Overview

About us. We are a leading online auction marketplace for wholesale, surplus and salvage assets. We enable buyers and sellers to transact in an efficient, automated online auction environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of wholesale, surplus and salvage assets presented with digital images and other relevant product information. Additionally, we enable our corporate and government sellers to enhance their financial return on excess assets by providing a liquid marketplace and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. We organize our products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, and specialty equipment. Our online auction marketplaces are www.liquidation.com, www.govliquidation.com and www.uksurplus.com. We also operate a wholesale industry portal, www.goWholesale.com, that connects advertisers with buyers seeking products for resale and related business services.

We believe our ability to create liquid marketplaces for wholesale, surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers. This flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the year ended September 30, 2005, the number of registered buyers grew from approximately 264,000 to approximately 386,000, and the number of monthly searches on our websites grew from approximately 1.3 million to 3.9 million. During the past three fiscal years, we have conducted over 436,000 online transactions representing approximately \$264 million in gross merchandise value. Approximately 90% of our initial listings have resulted in a completed cash sale during the past three fiscal years.

Our history. We were incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in early 2000. During 2000, we developed our online auction marketplace platform and began auctioning merchandise primarily for small commercial sellers and government agencies. In 2001, we changed our name to Liquidity Services, Inc. In June 2001, we were awarded our first major DoD contract, the Commercial Venture Two or CV2 contract. Under this agreement, we became the exclusive contractor with the Defense Reutilization and Marketing Service, or DRMS, for the sale of usable DoD surplus assets in the United States. In June 2005, we were awarded an additional exclusive contract with the DRMS to manage and sell substantially all DoD scrap property. During 2004, we launched our wholesale industry portal, www.goWholesale.com.

Recent initiatives. We have recently made several new investments to enhance the value of our business. During fiscal 2005, we hired additional key employees, including our Chief Financial Officer and Treasurer and our Vice President of Operations, as well as additional sales and marketing and technology and operations personnel. We incurred start-up administrative and legal costs during fiscal 2005 associated with the award of our new scrap contract. We also incurred start-up costs associated with www.goWholesale.com throughout fiscal 2005. During May 2005, we completed the acquisition of Wholesale411.com, a wholesale industry search engine and portal, and completed the integration of this business with goWholesale.com in October 2005. Throughout fiscal 2005, we continued to make

investments in our U.S. distribution center operations as well as in our uk surplus.com marketplace, which was started at the end of fiscal 2003. In anticipation of becoming a public company, we have also invested in our administrative infrastructure, including a new accounting system and the hiring of a consultant to assist us with our efforts to meet the requirements of becoming a public company.

Our revenue. We generate substantially all of our revenue by retaining a percentage of the proceeds from the sales we manage for our sellers. We offer our sellers two primary transaction models: a profit sharing model and a consignment model.

- *Profit sharing model.* Under our profit sharing model, we purchase inventory from our suppliers and share with them a portion of the profits received from a completed sale in the form of a distribution. Distributions are calculated based on the value received from sale after deducting direct costs, such as sales and marketing, technology and operations and other general and administrative costs. Because we are the primary obligor, and take general and physical inventory risks and credit risk under this transaction model, we recognize as revenue the sale price paid by the buyer upon completion of a transaction.
- *Consignment model.* Under our consignment model, we recognize commission revenue from sales of merchandise in our marketplaces that is owned by others. These commissions, which we refer to as seller commissions, represent a percentage of the sale price the buyer pays upon completion of a transaction. We vary the percentage amount of the seller commission depending on the various value-added services we provide to the seller to facilitate the transaction. For example, we generally increase the percentage amount of the commission if we take possession, handle, ship or provide enhanced product information for the merchandise. We collect the seller commission by deducting the appropriate amount from the sales proceeds prior to their distribution to the seller after completion of the transaction.

We collect buyer commissions on substantially all of our transactions under both of our transaction models. Buyer commissions are calculated as a percentage of the sale price of the merchandise sold and are paid to us by the buyer. These buyer commissions are in addition to the price of the merchandise. Under our profit sharing model, we typically share in the proceeds of our buyer commissions with our sellers.

In addition, we occasionally engage in transactions with our sellers in which we purchase merchandise outright for resale. Under this model, we do not share any profits with the sellers. These transactions generated less than 2% of our revenue in fiscal year 2005.

In fiscal year 2005, we generated less than 2% of our revenue from advertisements on our wholesale industry portals.

Our Seller Agreements

Our DoD agreements. We have two contracts with the DoD pursuant to which we acquire, manage and sell excess property:

- *Surplus contract.* In June 2001, we were awarded the CV2 contract, a competitive-bid exclusive contract under which we acquire, manage and sell all usable DoD surplus personal property turned into the DRMS. Surplus property generally consists of items determined by the DoD to be no longer needed, and not claimed for reuse by any federal agency, such as computers, electronics, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. In connection with the award of this surplus contract, we agreed to acquire SurplusBid.com, Inc. and its wholly owned subsidiary Levy Latham Global, LLC, the holder of the predecessor DoD surplus agreement, the Commercial Venture One or CV1 contract. Our surplus contract

accounted for approximately 95.8%, 91.0% and 87.5% of our revenue and 80.5%, 77.5% and 76.5% of our gross merchandise value, or GMV, for the fiscal years ended September 30, 2003, 2004 and 2005, respectively. The surplus contract expires in July 2008.

- *Scrap contract.* In June 2005, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell substantially all scrap property of the DoD turned into the DRMS. Scrap property generally consists of items determined by DoD to have no use beyond their base material content, such as metals, alloys, and building materials. The contract accounted for less than 1% of our revenue and our GMV for the fiscal year ended September 30, 2005. The contract expires in June 2012, subject to DoD's right to extend it for three additional one-year terms.

The surplus contract and the scrap contract are structured as profit sharing arrangements in which we purchase and take possession of all goods we receive from the DoD at a contractual percentage of the original acquisition cost of those goods. After deducting allowable operating expenses, we disburse to the DoD approximately 80% of the profits from the sale. We retain the remaining 20% of these profits. We refer to these disbursement payments to DoD as profit-sharing distributions. As a result of this arrangement, we recognize as revenue the gross proceeds from these sales.

In January 2005, we were awarded a contract to purchase DoD surplus property located in Europe. This contract is in its initial start-up phase and generated less than 1% of our revenue in fiscal 2005. This contract expires in January 2007.

Our UK MoD agreement. In July 2003, we were awarded a contract to manage and sell surplus property from the United Kingdom Ministry of Defence. This contract generated less than 4% of our revenue in fiscal year 2005. This contract expires in July 2008, subject to the Ministry's right to extend the contract for two additional one-year terms.

Our commercial agreements. During fiscal year 2005, we had over 280 corporate clients who each sold in excess of \$10,000 of wholesale, surplus and salvage assets in our marketplaces. Our agreements with these clients are generally terminable at will by either party.

Key Business Metrics

Our management periodically reviews certain key business metrics for operational planning purposes and to evaluate the effectiveness of our operational strategies, allocation of resources and our capacity to fund capital expenditures and expand our business. These key business metrics include:

Gross merchandise value. Gross merchandise value, or GMV, is the total sales value of all merchandise sold through our marketplaces during a given period. GMV is greater than revenue recognized in accordance with GAAP because a portion of the merchandise we sell in our marketplaces is sold in a manner that requires us to recognize revenue on a net basis, such as commissions we earn on consignment sales.

We review GMV because it provides a measure of the volume of goods being sold in our marketplaces and thus the activity of those marketplaces. GMV also provides a means to evaluate the effectiveness of investments that we have made and continue to make, including in the areas of customer support, value-added services, product development, sales and marketing, and operations. The gross merchandise value of goods sold in our marketplace during fiscal 2005 was \$102.2 million.

Completed transactions. Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions

is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the year ended September 30, 2005, we completed approximately 173,000 transactions.

Total registered buyers. We grow our buyer base through a combination of marketing and promotional efforts. Total registered buyers as of a given date represents the aggregate number of persons or entities who have registered on one of our marketplaces. We use this metric to evaluate how well our marketing and promotional efforts are performing. Total registered buyers excludes duplicate registrations, buyers who are suspended from utilizing our marketplaces and those buyers who have voluntarily removed themselves from our registration database. In addition, if we become aware of registered buyers that are no longer in business, we remove them from our database. As of September 30, 2005, we had approximately 386,000 registered buyers.

Total auction participants. For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our competitors, including other online auction sites and traditional on-site auctioneers. In addition, we measure total auction participants on a periodic basis to evaluate the activity level of our base of registered buyers and to measure the performance of our marketing and promotional efforts. For the year ended September 30, 2005, approximately 848,000 total auction participants participated in auctions on our marketplaces.

Non-GAAP Financial Measures

Adjusted profit-sharing distributions and adjusted net income. In June 2001, we acquired certain assets and assumed certain liabilities of SurplusBid.com, Inc. and its affiliates for \$7.5 million, including SurplusBid.com's surplus contract with the DoD. The SurplusBid.com acquisition price was paid over 33 months in accordance with the terms of the purchase agreement. At the same time, we were awarded our current surplus contract with the DoD. Our surplus contract required monthly profit-sharing distributions under the contract to be reduced by the amount of the monthly SurplusBid.com acquisition payments. This resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income during the 33 month period from June 2001 to March 2004. The total amount of the SurplusBid.com acquisition payment was recorded as a note payable in our consolidated balance sheet in fiscal 2001, discounted to a present value of approximately \$6.5 million. The discount of approximately \$1 million was accreted as interest expense over the term of the acquisition payments.

As a result, we present two supplemental non-GAAP financial measures, adjusted distributions and adjusted net income, to eliminate the impact of the SurplusBid.com acquisition payments. These measures are prepared by increasing the profit-sharing distributions line item in our statements of operations by DoD's portion of the principal payments on the SurplusBid.com note payable made during each period (*i.e.*, approximately 80% of the principal payments). We do not add back the accreted interest portion of the SurplusBid.com acquisition payments when adjusting distributions and net income because the accreted interest is already included in interest expense and other income in our consolidated statements of operations. We believe adjusted profit-sharing distributions and adjusted net income are useful to investors because they eliminate an item that we do not consider indicative of our core operating performance due to its temporary, non-recurring nature. We also believe it is important to provide investors with the same metrics used by management to measure core operating performance.

The table below reconciles distributions and net income to such item's adjusted presentation for the periods presented.

	Nine months ended September 30, 2001	Year ended September 30,			
		2002	2003	2004	2005(1)
(in thousands)					
Profit-sharing distributions	\$ 2,000	\$ 17,717	\$ 30,427	\$ 39,718	\$ 48,952
Adjustment	296	1,899	2,095	932	—
Adjusted profit-sharing distributions	\$ 2,296	\$ 19,616	\$ 32,522	\$ 40,650	\$ 48,952
Net income (loss)	\$ (4,857)	\$ 1,324	\$ 2,776	\$ 5,269	\$ 4,122
Adjustment	(296)	(1,899)	(2,095)	(932)	—
Adjusted net income (loss)	\$ (5,153)	\$ (575)	\$ 681	\$ 4,337	\$ 4,122

(1) The final SurplusBid.com acquisition payment was made in March 2004 and therefore no adjustments were made in fiscal 2005.

EBITDA and adjusted EBITDA. EBITDA is a supplemental non-GAAP financial measure and is equal to net income (loss) plus (a) interest expense and other income; (b) provision for income taxes; (c) amortization of contract intangibles; and (d) depreciation and amortization. Our definition of adjusted EBITDA is different from EBITDA because we further adjust EBITDA for: (a) stock based compensation expense; and (b) a portion of the SurplusBid.com acquisition payments, as described above under "Adjusted profit-sharing distributions and adjusted net income."

We believe EBITDA and adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- The amortization of contract intangibles relate to the amortization of the CV1 contract during fiscal years 2001 to 2003, and amortization of the scrap contract beginning in June 2005. Depreciation and amortization expense primarily relates to property and equipment. Both of these expenses are non-cash charges that have significantly fluctuated over the past five years. As a result, we believe that adding back these non-cash charges to net income (loss) is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of substantial federal net operating loss carryforwards, or NOLs, we did not incur significant income tax expense until fiscal 2005. With the exhaustion of our remaining federal NOLs during fiscal 2005, we recorded federal income tax expense for the first time, thus significantly decreasing our fiscal 2005 net income relative to prior years. Consequently, we believe that presenting a financial measure that adjusts net income (loss) for provision for income taxes is useful to investors when evaluating the operating performance of our business.
- During July 2001, we modified the exercise price of 3,402,794 stock options issued to employees. As a result, we are accounting for the modified stock options from the date of modification to the date the stock options are exercised, forfeited or expire unexercised using variable accounting. Under variable accounting, we revalue compensation costs for the stock options at each reporting period based on changes in the intrinsic value of the stock options. We recorded \$85,010 and \$87,403, respectively in stock compensation expenses based on vesting of the fair value of the options for the years ended September 30, 2004 and 2005. We will continue to revalue compensation costs for the options based on changes in the fair value of our common stock in future periods. In addition, we will recognize the fair value of new share based payments issued subsequent to October 1, 2005 in our consolidated statements of operations, pursuant to the adoption of Statement of Financial Accounting Standards No. 123(R). As a result, we present a financial measure that adjusts net income (loss) and EBITDA for stock

compensation expense because these measures are non-cash items that are not directly related to the core operating performance of our business.

- As discussed above, the requirement under our surplus contract with the DoD for monthly profit-sharing distributions to be reduced by the monthly SurplusBid.com acquisition payments resulted in a temporary non-recurring reduction in our profit-sharing distributions and a significant increase in our net income and EBITDA during the 33 month period from July 2001 to March 2004. As a result, we believe that it is useful to exclude a portion of these profit-sharing distributions from adjusted EBITDA because the payments will not recur in future periods and were unrelated to our core operations.
- We believe these measures are important indicators of our operational strength and the performance of our business because they provide a link between profitability and operating cash flow.
- We also believe that analysts and investors use EBITDA and adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses EBITDA and adjusted EBITDA:

- as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

EBITDA and adjusted EBITDA as calculated by us are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and adjusted EBITDA: (a) do not represent net income or cash flows from operating activities as defined by GAAP; (b) are not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as alternatives to net income, income from operations, cash provided by operating activities or our other financial information as determined under GAAP.

We prepare adjusted EBITDA by adjusting EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, adjusted EBITDA is subject to all of the limitations applicable to EBITDA. Our presentation of adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The table below reconciles net income (loss) to EBITDA and adjusted EBITDA for the periods presented.

	Nine months ended September 30, 2001	Year ended September 30,			
		2002	2003	2004	2005
(in thousands)					
Net income (loss)	\$ (4,857)	\$ 1,324	\$ 2,776	\$ 5,269	\$ 4,122
Interest expense and other income, net	92	169	391	621	570
Provision for income taxes	—	—	351	541	1,166
Amortization of contract intangibles	670	2,483	1,862	—	135
Depreciation and amortization	265	408	465	531	586
EBITDA	(3,830)	4,384	5,845	6,962	6,579
Stock compensation expense	—	—	—	85	87
Adjustment (1)	(296)	(1,899)	(2,095)	(932)	—
Adjusted EBITDA	\$ (4,126)	\$ 2,485	\$ 3,750	\$ 6,115	\$ 6,666

(1) The adjustment amount for each period equals approximately 80% of the principal payments on the SurplusBid.com note payable made during each period, as described above under "Adjusted distributions and adjusted net income." No payments were made in fiscal 2005.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. A "critical accounting estimate" is one which is both important to the portrayal of our financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We continuously evaluate our critical accounting estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue recognition. We recognize revenue in accordance with the provisions of Staff Accounting Bulletin 101, *Revenue Recognition*. For transactions in our online marketplaces, which generate substantially all of our revenue, we recognize revenue when all of the following criteria are met:

- a buyer submits the winning bid in an auction and, as a result, evidence of an arrangement exists and the sale price has been determined;
- title has passed to a buyer and the buyer has assumed risks and rewards of ownership;
- for arrangements with an inspection period, the buyer has received the merchandise and has not notified us within that period that it is dissatisfied with the merchandise; and
- collection is reasonably assured.

Substantially all of our sales are recorded subsequent to payment authorization being received, utilizing credit cards, wire transfers and PayPal, an Internet based payment system, as methods of

payments. As a result, we are not subject to significant collection risk, as goods are generally not shipped before payment is received.

Revenue is also evaluated in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, for reporting revenue of gross proceeds as the principal in the arrangement or net of commissions as an agent. In arrangements in which we are deemed to be the primary obligor, bear physical and general inventory risk, and credit risk, we recognize as revenue the gross proceeds from the sale, including buyer's commissions. Arrangements in which we act as an agent or broker on a consignment basis, without taking general or physical inventory risk, revenue is recognized based on the sales commissions that are paid to us by the sellers for utilizing our services; in this situation, sales commissions represent a percentage of the gross proceeds from the sale that the seller pays to us upon completion of the transaction.

Valuation of goodwill and other intangible assets. In accordance with SFAS 141, *Business Combinations*, we identify and value intangible assets that we acquire in business combinations, such as customer arrangements, customer relationships and non-compete agreements, that arise from contractual or other legal rights or that are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. The fair value of identified intangible assets is based upon an estimate of the future economic benefits expected to result from ownership, which represents the amount at which the assets could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we test our goodwill and other intangible assets for impairment annually or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or a loss of significant customers. We apply a two-step fair value-based test to assess goodwill for impairment. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is then performed. The second step compares the carrying amount of the reporting unit's goodwill to the fair value of the goodwill. If the fair value of the goodwill is less than the carrying amount, an impairment loss would be recorded in our statements of operations. Intangible assets with definite lives are amortized over their estimated useful lives and are also reviewed for impairment if events or changes in circumstances indicate that their carrying amount may not be realizable.

Our management makes certain estimates and assumptions in order to determine the fair value of net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. The valuations employ a combination of present value techniques to measure fair value, corroborated by comparisons to estimated market multiples. These valuations are based on a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model.

We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and other intangible assets, which totaled \$9.4 million at September 30, 2005. Such events may include strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our buyers and sellers base or material negative changes in our relationships with material customers.

Income taxes. We account for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. This statement requires an asset and liability

approach for measuring deferred taxes based on temporary differences between the financial statement and income tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which the taxes are expected to be paid or recovered. A valuation allowance is provided to reduce the deferred tax assets to a level that we believe will more likely than not be realized. The resulting net deferred tax asset reflects management's estimate of the amount that will be realized.

We provide for income taxes based on our estimate of federal and state tax liabilities. These estimates include, among other items, effective rates for state and local income taxes, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items. Our estimates are based on the information available to us at the time we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Stock-based compensation. We account for our employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the intrinsic value method, options with an exercise price at least equal to the estimated fair value of the underlying common stock at the date of grant generally do not result in compensation expense. Our stock options have generally been granted with an exercise price equal to the estimated fair value of our common stock on the date of grant and, accordingly, any compensation related expenses for options have not been material.

Historically, no public market has existed for our stock. Therefore, since September 2004, our management performed various valuation analyses approved by the board of directors that used either a market or income approach to determine the estimated fair value of our common stock, depending on the most appropriate measure at that time. A market approach uses direct comparisons to precedent transactions to estimate fair value. Management and the board of directors also considered cash transactions involving our preferred stock. An income approach utilizes our estimates of future income and cash flows. Prior to September 2004, our management and board of directors determined the fair value of our common stock using a contemporaneous preferred stock transaction approach which applied discounts for valuation differences due to conversion privileges, dividends, control, and seniority and liquidity preferences. We make disclosure regarding employee stock-based compensation using the minimum value method in accordance with Statement of Financial Accounting Standards, or SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or Statement 123(R), which is a revision of SFAS No. 123. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values. Pro forma disclosure is no longer an alternative. We adopted the provisions of Statement 123(R) on October 1, 2005, using the prospective method. Unvested stock based awards issued prior to October 1, 2005, the date that we plan to adopt the provisions of Statement 123(R), will be accounted for at the date of adoption using the intrinsic value method originally applied to those awards. Accordingly, the adoption of Statement 123(R)'s fair value method may have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact to us of adoption of Statement 123(R) cannot be predicted at this time because it will depend significantly on levels of share-based payments granted in the future.

The above list is not intended to be a comprehensive list of all of our accounting estimates. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with little need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. See our audited financial statements and related notes, which contain accounting policies and other disclosures required by generally accepted accounting principles in the United States.

Components of Revenue and Expenses

Revenue. We generate substantially all of our revenue from sales of merchandise held in inventory and by retaining a percentage of the proceeds from the sales. Our revenue recognition practices are discussed in more detail in the section above entitled "*Critical Accounting Estimates.*"

Cost of goods sold (excluding amortization). Cost of goods sold includes the costs of purchasing and transporting property for auction as well as credit card transaction fees.

Profit-sharing distributions. Our two primary contracts with the DoD are structured as profit sharing arrangements in which we purchase and take possession of all goods we receive from the DoD at a contractual percentage of the original acquisition cost of those goods. After deducting allowable operating expenses, we disburse to the DoD on a monthly basis approximately 80% of the profits of the aggregate monthly sales. We retain the remaining 20% of these profits. We refer to these disbursement payments to DoD as profit-sharing distributions.

Our UK MoD contract is structured as a profit sharing arrangement, and payments we make pursuant to this agreement are included in profit-sharing distributions.

Technology and operations. Technology expenses consist primarily of personnel costs related to our programming staff who develop and deploy new marketplaces, such as goWholesale.com, and continuously enhance existing marketplaces. These personnel also develop and upgrade the software systems that support our operations, such as sales processing. Because our marketplaces and support systems require frequent upgrades and enhancements to maintain viability, we have determined that the useful life for substantially all of our internally developed software is less than one year. As a result, we expense these costs as incurred.

Operations expenses consist primarily of operating costs, including, buyer relations, shipping logistics and distribution center operating costs.

Sales and marketing. Sales and marketing expenses include the cost of our sales and marketing personnel as well as the cost of marketing and promotional activities. These activities include online marketing campaigns such as paid search advertising.

General and administrative. General and administrative expenses include all corporate and administrative functions that support our operations and provide an infrastructure to facilitate our future growth. Components of these expenses include executive management and staff salaries, bonuses and related taxes and employee benefits; travel; headquarters rent and related occupancy costs; and legal and accounting fees. The salaries, bonus and employee benefits costs included as general and administrative expenses are generally more fixed in nature than our operating expenses and do not vary directly with the volume of merchandise sold through our marketplaces. We anticipate that we will also incur additional employee salaries and related expenses, professional service fees, and insurance costs necessary to meet the requirements of being a public company.

Amortization of contract intangibles. Amortization of contract intangibles expense for fiscal years 2001 to 2003 consists primarily of the amortization expenses resulting from the costs related to our procurement of SurplusBid.com and its DoD surplus contract, CV1. We acquired this contract in July 2001 and amortized the related intangible assets on a straight line basis over the remaining 24 month term of the contract.

We were awarded our DoD scrap contract during June 2005. This contract required us to purchase the rights to operate the scrap operations of the DoD during the seven year base term of the contract. The intangible asset created from the \$5.7 million purchase is being amortized over 84 months on a straight-line basis. The amortization period is correlated to the base term of the contract, exclusive of renewal periods.

Depreciation and amortization. Depreciation and amortization expenses consist primarily of the depreciation and amortization of amounts recorded in connection with the purchase of furniture, fixtures and equipment.

Interest expense and other income, net. Interest expense and other income, net consists primarily of interest on borrowings under our long-term debt; interest expense associated with warrants to purchase our common stock that were issued to, among others, the lenders of our debt financing in 2003; and realized gains or losses on short-term investments.

Income taxes. Prior to fiscal 2002, we incurred losses from our operations and, as a result, did not incur significant liabilities for income taxes. While we generated NOLs during this time, we did not record a deferred tax asset for these NOLs or any other deferred items because of the uncertainty of their realization. We utilized these NOLs through fiscal 2004 to offset substantially all of the federal income taxes we would have otherwise owed. We continued to owe state income taxes during these periods. At September 30, 2004, we had utilized a significant portion of our federal NOLs. During fiscal year 2005, we exhausted our remaining federal NOLs and had an effective income tax rate of approximately 22%. We estimate that our future effective income tax rate will be approximately 40%.

Results of Operations

The following table sets forth, for the fiscal years ended September 30, 2003, 2004 and 2005, selected statement of operations data expressed as a percentage of revenue.

	Year ended September 30,		
	2003	2004	2005
Revenue	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of goods sold (excluding amortization)	8.4	6.2	6.3
Profit-sharing distributions	50.1	52.4	54.7
Technology and operations	17.3	18.7	17.2
Sales and marketing	5.0	5.6	6.1
General and administrative	9.5	8.0	8.3
Amortization of contract intangibles	3.1	—	0.2
Depreciation and amortization	0.8	0.7	0.7
Total costs and expenses	94.2	91.6	93.5
Income from operations	5.8	8.4	6.5
Interest expense and other income, net	(0.6)	(0.8)	(0.6)
Income before provision for income taxes	5.2	7.6	5.9
Provision for income taxes	(0.6)	(0.7)	(1.3)
Net income	4.6%	6.9%	4.6%

Year Ended September 30, 2005 Compared to Year Ended September 30, 2004

Revenue. Revenue increased \$13.5 million, or 17.9%, to \$89.4 million for the year ended September 30, 2005 from \$75.9 million for the year ended September 30, 2004. This increase was primarily due to an increase in the number of completed transactions through our online auction marketplaces. The number of completed transactions increased from approximately 141,000 to 173,000, or 22.9%, in the same period. The amount of gross merchandise value transacted through our marketplaces increased \$13.1 million, or 14.7%, to \$102.2 million for the year ended September 30, 2005 from \$89.1 million for the year ended September 30, 2004. We believe this increase is attributable to our investment in our sales and marketing organization, as well as increased market acceptance by corporate sellers and professional buyers of our online marketplaces as an efficient channel to auction and purchase wholesale, surplus and salvage assets. We also benefited from our ability to more effectively market offered assets to potential buyers as we gained transaction experience and industry knowledge in the vertical product segments auctioned through our marketplaces. Our marketing efforts resulted in an approximate 46.2% increase in registered buyers to approximately 386,000 at September 30, 2005 from approximately 264,000 at September 30, 2004. In addition, we believe we sold more surplus goods for existing sellers in 2005 as compared to 2004 because we demonstrated enhanced sales values and operational efficiencies.

Cost of goods sold (excluding amortization). Cost of goods sold (excluding amortization) increased \$0.9 million, or 19.2%, to \$5.6 million for the year ended September 30, 2005 from \$4.7 million for the year ended September 30, 2004, primarily due to the increase in revenue. As a percentage of revenue, cost of goods sold (excluding amortization) remained consistent at 6.3% in fiscal 2005 compared to 6.2% in fiscal 2004.

Profit-sharing distributions. Profit-sharing distributions increased \$9.2 million, or 23.2%, to \$48.9 million for the year ended September 30, 2005 from \$39.7 million for the year ended September 30, 2004, which was primarily due to an increase in revenue from sellers utilizing our profit sharing model, such as the DoD. As a percentage of revenue, profit-sharing distributions increased to 54.7% in fiscal 2005 from 52.4% in fiscal 2004. As described above in "Non-GAAP Financial Measures," the increase as a percentage of revenue was due primarily to actual profit-sharing distributions paid to DoD being reduced during the 33 month period ended March 2004 as a result of our acquisition of SurplusBid.com in June 2001. Profit-sharing distributions during the last six months of fiscal 2004 and throughout fiscal 2005 were not affected by our SurplusBid.com acquisition and, therefore, we experienced a comparative increase between 2004 and 2005 in profit-sharing distributions as a percentage of revenue.

Technology and operations expenses. Technology and operations expenses increased \$1.2 million, or 8.5%, to \$15.4 million for the year ended September 30, 2005 from \$14.2 million for the year ended September 30, 2004. As a percentage of revenue, these expenses decreased to 17.2% in fiscal 2005 from 18.7% in fiscal 2004. The increase was primarily due to the addition of 12 operations personnel needed to support the increased volume of transactions and merchandise discussed above. The decrease as a percentage of revenue is primarily the result of operating efficiencies gained as fixed costs, such as programming staff, were spread over a larger revenue base.

Sales and marketing expenses. Sales and marketing expenses increased \$1.2 million, or 29.1%, to \$5.5 million for the year ended September 30, 2005 from \$4.3 million for the year ended September 30, 2004. As a percentage of revenue, these expenses increased to 6.1% in fiscal 2005 from 5.6% in fiscal 2004. The increase was primarily due to our hiring of seven additional sales and marketing personnel and \$0.7 million in increased expenditures on marketing and promotional activities across our marketplaces.

General and administrative expenses. General and administrative expenses increased \$1.4 million, or 22.3%, to \$7.4 million for the year ended September 30, 2005 from \$6.0 million for the year ended September 30, 2004. As a percentage of revenue, these expenses increased to 8.3% in fiscal 2005 from 8.0% in fiscal 2004. The increase was primarily due to: (1) the addition of three employees in our general and administrative headcount to support our growth and to prepare our company to meet the additional requirements of being a public company; and (2) costs of \$0.3 million related to our procurement of the DoD scrap contract. The remaining increase was due to increases in various general and administrative expenses to support the growth in our operations.

Amortization of contract intangibles. Amortization of contract intangibles increased \$0.1 million, to \$0.1 million for the year ended September 30, 2005, from \$0.0 million for the year ended September 30, 2004, as a result of our DoD scrap contract award during June 2005. This contract required us to purchase the rights to operate the scrap operations of the DoD during the seven year base term of the contract. The intangible asset created from the \$5.7 million purchase is being amortized over 84 months on a straight line basis, which began in August 2005.

Depreciation and amortization expenses. Depreciation and amortization expenses increased \$0.1 million, or 10.4%, to \$0.6 million for the fiscal year ended September 30, 2005 from \$0.5 million for the year ended September 30, 2004. This increase was due primarily to additional depreciation expense resulting from the purchase of \$0.5 million of property and equipment during fiscal year ended September 30, 2005.

Interest expense and other income, net. Interest expense and other income, net remained constant at \$0.6 million for the years ended September 30, 2005 and September 30, 2004.

Provision for income tax expense. Income tax expense increased \$0.6 million to \$1.1 million for the year ended September 30, 2005 from \$0.5 million for the year ended September 30, 2004, primarily due to the increase in income before provision for income taxes and the exhaustion of our remaining federal NOLs during the year ended September 30, 2005.

Net income. Net income decreased \$1.2 million, or 21.8%, to \$4.1 million for the year ended September 30, 2005 from \$5.3 million for the year ended September 30, 2004. The decrease was due to the result of items discussed above.

Year Ended September 30, 2004 Compared to Year Ended September 30, 2003

Revenue. Revenue increased \$15.2 million, or 25.0%, to \$75.9 million for the year ended September 30, 2004 from \$60.7 million for the year ended September 30, 2003. This increase was primarily due to increased transaction volume through our online auction marketplaces. The volume of gross merchandise sales conducted through our marketplaces increased \$16.8 million, or 23.2%, to \$89.1 million for the year ended September 30, 2005 from \$72.3 million for the year ended September 30, 2004. We believe this increase is attributable to our investment in our sales and marketing organization as described below. Our marketing efforts increased our number of registered buyers by 76.2% to approximately 264,000 at September 30, 2004 from approximately 150,000 at September 30, 2003.

Cost of goods sold (excluding amortization). Cost of goods sold (excluding amortization) decreased \$0.4 million, or 7.5%, to \$4.7 million for the year ended September 30, 2004 from \$5.1 million for the year ended September 30, 2003. As a percentage of revenue, cost of goods sold (excluding amortization) decreased to 6.2% in fiscal 2004 compared to 8.4% in fiscal 2003. These decreases were the result of lower fulfillment and shipping costs.

Profit-sharing distributions. Profit-sharing distributions increased \$9.3 million, or 30.5%, to \$39.7 million for the year ended September 30, 2004 from \$30.4 million for the year ended September 30, 2003, which was primarily due to an increase in revenue from sellers utilizing our profit sharing model, such as the DoD. As a percentage of revenue, profit-sharing distributions increased to 52.4% in fiscal 2004 from 50.1% in fiscal 2003. As described above in "Non-GAAP Financial Measures," the increase as a percentage of revenue was due primarily to actual profit-sharing distributions paid to DoD being reduced during the 33 month period ended March 2004 as a result of our acquisition of SurplusBid.com in June 2001. Profit-sharing distributions during the last six months of fiscal 2004 were not affected by our SurplusBid.com acquisition and, therefore, we experienced a comparative increase between 2004 and 2003 in profit-sharing distributions as a percentage of revenue.

Technology and operations expenses. Technology and operations expenses increased \$3.7 million, or 35.1%, to \$14.2 million for the year ended September 30, 2004 from \$10.5 million for the year ended September 30, 2003. As a percentage of revenue, these expenses increased to 18.7% in fiscal 2004 from 17.3% in fiscal 2003. The increase was primarily due to: (1) \$1.4 million of start up costs related to our uk surplus.com marketplace; (2) \$1.0 million of additional costs to administer the growth in our DoD surplus contract; (3) \$0.4 million of additional compensation expense for technology personnel; and (4) \$0.7 million of additional compensation expense for operations personnel.

Sales and marketing expenses. Sales and marketing expenses increased \$1.2 million, or 39.5%, to \$4.3 million for the year ended September 30, 2004 from \$3.1 million for the year ended September 30, 2003. As a percentage of revenue, these expenses increased to 5.6% in fiscal 2004 from 5.0% in fiscal 2003. The increase in dollars as well as a percentage of revenue was due primarily to the addition of

six sales and marketing personnel and \$0.5 million of start-up marketing costs related to our uk surplus.com marketplace.

General and administrative expenses. General and administrative expenses increased \$0.2 million, or 4.1%, to \$6.0 million for the year ended September 30, 2004 from \$5.8 million for the year ended September 30, 2003. As a percentage of revenue, these expenses decreased to 8.0% in fiscal 2004 from 9.5% in fiscal 2003. The increase in dollars is attributable to an increase in compensation for existing executive personnel. The decrease as a percentage of revenue is the result of efficiencies gained as the fixed costs of our corporate support structure were spread over a larger revenue base.

Amortization of contract intangibles. Amortization of contract intangibles decreased \$1.9 million to \$0.0 million for the year ended September 30, 2004 from \$1.9 million for the year ended September 30, 2003. As a result of our acquisition of SurplusBid.com and the related CV1 contract in June 2001, we recognized a significant intangible that was amortized into fiscal 2003 on a straight-line basis over the remaining 24 month term of the CV1 contract, as discussed above in "Non-GAAP Financial Measures." There was no such amortization for the contract in fiscal 2004.

Depreciation and amortization expenses. Depreciation and amortization expenses increased \$0.1 million, or 14.0%, to \$0.5 million for the year ended September 30, 2004 from \$0.4 million for the year ended September 30, 2003. This increase was primarily due to the purchase of \$0.4 million of property and equipment during the fiscal year ended September 30, 2004.

Interest expense and other income, net. Interest expense and other income, net increased \$0.2 million, or 58.6%, to \$0.6 million for the year ended September 30, 2004 from \$0.4 million for the year ended September 30, 2003. The increase in expense was primarily due to increased interest expense on our outstanding \$2.0 million of subordinated debt, which was issued in May 2003 and outstanding for the full 2004 fiscal year.

Provision for income tax expense. Income tax expense increased \$0.2 million, or 54.1%, to \$0.5 million for the year ended September 30, 2004 from \$0.3 million for the year ended September 30, 2003, primarily due to the increase in our income before provision for income taxes. The increase in the provision for income tax was attributable entirely to state income taxes, as we continued to utilize our NOLs to offset federal income taxes otherwise due.

Net income. Net income increased \$2.5 million, or 89.8%, to \$5.3 million for the year ended September 30, 2004 from \$2.8 million for the year ended September 30, 2003, as a result of the items discussed above.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly consolidated statement of operations data for the eight most recent quarters, as well as each line item expressed as a percentage of total revenue. This unaudited quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data. This information should be read together with the consolidated financial statements and related notes included elsewhere in this prospectus. We believe that our quarterly revenue and operating results are likely to vary in the future. The operating results for any quarter are not necessarily indicative of the operating results for any future period or for a full year. Factors that may cause our revenue and

operating results to vary or fluctuate include those discussed in the "Risk Factor" section of this prospectus.

	Three months ended							
	Dec. 31, 2003	Mar. 30, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 30, 2005	June 30, 2005	Sept. 30, 2005
	(in thousands)							
Gross merchandise value	\$ 20,062	\$ 20,971	\$ 23,902	\$ 24,169	\$ 22,346	\$ 25,492	\$ 26,529	\$ 27,843
Revenue	16,651	17,989	20,322	20,907	19,817	22,432	22,940	24,225
Costs and expenses:								
Costs of goods sold (excluding amortization)	1,141	1,090	1,232	1,247	1,056	1,419	1,412	1,726
Profit-sharing distributions	7,775	9,352	11,016	11,576	10,985	12,830	12,516	12,621
Technology and operations	3,257	3,562	3,812	3,537	3,674	3,660	3,842	4,194
Sales and marketing	974	1,014	1,050	1,227	1,190	1,217	1,376	1,721
General and administrative	1,365	1,409	1,492	1,780	1,690	1,674	1,918	2,115
Amortization of contract intangibles	—	—	—	—	—	—	—	135
Depreciation and amortization	98	121	167	145	141	148	150	146
Total costs and expenses	14,610	16,548	18,769	19,512	18,736	20,948	21,214	22,658
Income from operations	2,041	1,441	1,553	1,395	1,081	1,484	1,726	1,567
Interest expense and other income, net	(189)	(94)	(195)	(143)	(110)	(162)	(140)	(158)
Income before provision for income taxes	1,852	1,347	1,358	1,252	971	1,322	1,586	1,409
Provision for income taxes	(172)	(122)	(130)	(117)	(353)	(448)	(543)	178
Net income	\$ 1,680	\$ 1,225	\$ 1,228	\$ 1,135	\$ 618	\$ 874	\$ 1,043	\$ 1,587

	Three months ended							
	Dec. 31, 2003	Mar. 30, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 30, 2005	June 30, 2005	Sept. 30, 2005
	(as a percentage of revenue)							
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:								
Costs of goods sold (excluding amortization)	6.9	6.1	6.1	5.9	5.3	6.3	6.1	7.1
Profit-sharing distributions	46.7	52.0	54.2	55.4	55.4	57.2	54.6	52.1
Technology and operations	19.6	19.8	18.8	16.9	18.6	16.3	16.7	17.3
Sales and marketing	5.8	5.6	5.2	5.9	6.0	5.4	6.0	7.1
General and administrative	8.2	7.8	7.3	8.5	8.5	7.5	8.4	8.7
Amortization of contract intangibles	—	—	—	—	—	—	—	0.6
Depreciation and amortization	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.6
Total costs and expenses	87.8	92.0	92.4	93.3	94.5	93.4	92.5	93.5
Income from operations	12.2	8.0	7.6	6.7	5.5	6.6	7.5	6.5
Interest expense and other income, net	(1.1)	(0.5)	(0.9)	(0.7)	(0.6)	(0.7)	(0.6)	(0.7)
Income before provision for income taxes	11.1	7.5	6.7	6.0	4.9	5.9	6.9	5.8
Provision for income taxes	(1.0)	(0.7)	(0.6)	(0.6)	(1.8)	(2.0)	(2.4)	0.7
Net income	10.1%	6.8%	6.1%	5.4%	3.1%	3.9%	4.5%	6.5%

Our prior quarterly operating results have fluctuated due to changes in our business and the e-commerce industry. Similarly, our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. You should not rely on period-to-period comparisons of our operating results as an indication of our future performance. Factors that may affect our quarterly operating results include the following:

- the addition of new buyers and sellers or the loss of existing buyers and sellers;
- the volume, size, timing and completion rate of transactions in our marketplaces;

- changes in the supply and demand for and the volume, price, mix and quality of our supply of wholesale, surplus and salvage assets;
- introduction of new or enhanced websites, services or product offerings by us or our competitors;
- implementation of significant new contracts;
- changes in our pricing policies or the pricing policies of our competitors;
- changes in the conditions and economic prospects of the e-commerce industry or the economy generally, which could alter current or prospective buyers' and sellers' priorities;
- technical difficulties, including telecommunication system or Internet failures;
- changes in government regulation of the Internet and e-commerce industry;
- event-driven disruptions such as war, terrorism, disease and natural disasters;
- seasonal patterns in selling and purchasing activity; and
- costs related to acquisitions of technology or equipment.

Our operating results may fall below the expectations of market analysts and investors in some future periods. If this occurs, even temporarily, it could cause volatility in our stock price.

Liquidity and Capital Resources

Historically our primary cash needs have been working capital, which we have funded primarily through cash generated from operations. During 2005 we utilized our cash on hand, as well as our borrowings under our senior credit facility, to provide additional capital resources: (1) to fund our costs associated with the procurement of our DoD scrap contract, including a \$5.7 million acquisition payment; and (2) to purchase the assets of Wholesale411.com. As of September 30, 2005, we had approximately \$10.4 million in cash and approximately \$3.1 million available under our \$5.5 million senior credit facility.

Substantially all of our sales are recorded subsequent to payment authorization being received, utilizing credit cards, wire transfers and PayPal, an Internet based payment system, as methods of payments. As a result, we are not subject to significant collection risk, as goods are generally not shipped before payment is received.

Changes in Cash Flows: 2005 Compared to 2004

Net cash provided by operating activities increased \$0.5 million to \$6.1 million for the year ended September 30, 2005 from \$5.6 million for the year ended September 30, 2004. For the year ended September 30, 2005, net cash provided by operating activities primarily consisted of net income of \$4.1 million, depreciation and amortization expense of \$0.7 million and an increase in accrued expenses and other liabilities of \$1.8 million, offset in part by other expenses of \$0.4 million and a net increase in accounts receivable, inventory and prepaid assets of \$0.1 million. For the year ended September 30, 2004, net cash provided by operating activities primarily consisted of net income of \$5.3 million, depreciation and amortization expense of \$0.5 million, other expenses of \$0.3 million and an increase in accounts payable and other liabilities of \$1.6 million, offset in part by an increase in accounts receivable, inventory and prepaid assets of \$2.2 million.

Net cash used in investing activities was \$3.2 million for the year ended September 30, 2005 and \$3.0 million for the year ended September 30, 2004. Net cash used in investing activities in fiscal 2005

consisted primarily of \$5.7 million for the purchase of the scrap contract, \$3.8 million for the purchase of Wholesale411.com and the 3.1% minority interest in one of our subsidiaries, and capital expenditures of \$0.5 million for purchases of equipment, offset by the net proceeds from short-term investments of \$6.8 million. Net cash used in investing activities in 2004 consisted primarily of net purchases of short-term investments of \$2.6 million and capital expenditures of \$0.4 million for purchases of equipment.

Net cash provided by financing activities was \$2.0 million for the year ended September 30, 2005 and net cash used in financing activities was \$3.5 million for the year ended September 30, 2004. Net cash provided by financing activities in fiscal 2005 primarily reflected \$2.4 million in borrowings under our senior credit facility and \$0.2 million from the sale of common stock issued upon option exercises. These amounts were offset by \$0.5 million of common stock repurchases and \$0.1 million of payments made on notes payable and capital leases. Net cash used in financing activities in fiscal 2004 reflected \$19.7 million from the sale of our Series C preferred stock and \$0.3 million from the sale of common stock issued upon option exercises, which was offset by a \$20.2 million dividend to holders of our capital stock, and the repurchase of the remaining outstanding shares of our Series A and B preferred stock for \$1.8 million. In addition, we made principal payments on notes payable and capital leases of \$1.4 million.

Changes in Cash Flows: 2004 Compared to 2003

Net cash provided by operating activities decreased \$0.5 million to \$5.6 million for the year ended September 30, 2004 from \$6.1 million for the year ended September 30, 2003. For the year ended September 30, 2004, net cash provided by operating activities primarily consisted of net income of \$5.3 million, depreciation and amortization expense of \$0.5 million, other expenses of \$0.4 million and an increase in accounts payable and other liabilities of \$1.6 million, offset in part by an increase in accounts receivable, inventory and prepaid assets of \$2.2 million. For the year ended September 30, 2003, net cash provided by operating activities primarily consisted of net income of \$2.8 million, depreciation and amortization expense of \$2.3 million, other expenses of \$0.3 million and an increase in other liabilities of \$1.2 million, offset by a decrease in accounts payable of \$0.8 million.

Net cash used in investing activities was \$3.0 million for the year ended September 30, 2004 and \$3.7 million for the year ended September 30, 2003. Net cash used in investing activities in fiscal 2004 consisted primarily of net purchases of short-term investments of \$2.6 million and capital expenditures of \$0.4 million for purchases of equipment. Net cash used in investing activities in fiscal 2003 consisted primarily of net purchases of short-term investments of \$3.5 million and capital expenditures of \$0.2 million for purchases of equipment.

Net cash used in financing activities was \$3.5 million for the year ended September 30, 2004 and \$1.1 million for the year ended September 30, 2003. Net cash used in financing activities in fiscal 2004 reflected \$19.7 million from the sale of our Series C preferred stock and \$0.3 million from the sale of common stock issued upon option exercises, which was offset by a \$20.2 million dividend to holders of our capital stock, and the repurchase of the remaining outstanding shares of our Series A and B preferred stock for \$1.8 million. In addition, we made principal payments on notes payable and capital leases of \$1.4 million. Net cash used in financing activities in fiscal 2003 primarily reflected \$2.0 million in borrowings under our subordinated note and \$0.2 million from the sale of common stock issued upon option exercises, which was offset by \$3.3 million of principal payments made on notes payable and capital leases.

Capital Expenditures. Our capital expenditures consist primarily of computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. The timing and volume

of such capital expenditures in the future will be affected by the addition of new customers or expansion of existing customer relationships. We expect capital expenditures to range from \$0.5 million to \$1.0 million in the fiscal year ending September 30, 2006. We intend to fund those expenditures primarily from operating cash flows. Our capital expenditures for the year ended September 30, 2005 were \$0.5 million. As of September 30, 2005, we had no outstanding commitments for capital expenditures.

Senior credit facility. In June 2005, we expanded our senior credit facility from \$0.75 million to \$3.0 million and borrowed approximately \$2.0 million. We used these borrowings to acquire Wholesale411.com and to fund the costs incurred by us in procuring our DoD scrap contract. During July 2005, we further expanded our senior credit facility from \$3.0 million to \$5.5 million and eliminated several financial covenants that were no longer applicable to our business. We also increased the term from one year to two years, due July 2007. As of September 30, 2005, we had \$2.4 million of indebtedness outstanding under our senior credit facility. As of September 30, 2005, our borrowing availability under our senior credit facility was \$3.1 million, of which \$1.0 million is set aside as a contractual obligation under our scrap contract operations. The obligations under our senior credit facility are unconditionally guaranteed by us and each of our existing and subsequently acquired or organized subsidiaries (other than our subsidiaries organized to service our DoD contracts) and secured on a first priority basis by security interests (subject to permitted liens) in substantially all assets owned by us, and each of our other domestic subsidiaries, subject to limited exceptions noted above. Our credit agreement contains a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions, sales of assets, investments and acquisitions, indebtedness and liens, and dividends and other restricted payments. We intend to use a portion of the proceeds from this offering to repay all the outstanding indebtedness under our senior credit facility. See "Use of Proceeds."

Note payable. In May 2003, we issued a subordinated note to an unaffiliated third party in exchange for \$2 million in cash. The note bears interest at 12% per annum and is secured by a junior lien on substantially all of our assets. The note is due May 2008. We began monthly payments in May 2005 pursuant to the terms of the note. As additional consideration, we issued fully vested warrants to purchase 517,094 shares of our common stock. The aggregate exercise price of the warrants was \$10.00. All of the warrants have previously been exercised. We intend to use a portion of the proceeds from this offering to retire the note. See "Use of Proceeds."

We believe that our existing cash and cash equivalents, excluding the net proceeds from this offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the development and deployment of new marketplaces, the introduction of new value added services and the costs to establish additional distribution centers. Although we are currently not a party to any agreement or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased interest expense and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing and there is no assurance that such financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Preferred Stock Financings

In September 2004, we issued 3,262,643 shares of Series C preferred stock to entities related to ABS Capital Partners in exchange for approximately \$20 million in cash. In December 2004, we used all of the proceeds from this transaction to pay a special dividend to all holders of our capital stock. Immediately prior to the closing of this offering, the outstanding shares of the Series C preferred stock will be converted into shares of common stock.

Our Series A preferred stock and Series B preferred stock were either repurchased or converted into common stock in 2003 and 2004. We have no outstanding shares of Series A preferred stock and Series B preferred stock.

Contractual and Commercial Commitments

The table below represents our significant commercial commitments as of September 30, 2005. Notes payable, borrowings under our senior credit facility and capital leases are reflected on our September 30, 2005 balance sheet. Operating leases, which represent commitments to rent office and warehouse space in the United States and Europe, are not reflected on our balance sheets.

	Total	Less than 1 year	1 to 3 years	3 to 5 years	5+ years
	(in thousands)				
Senior credit facility (1)	\$ 2,400	\$ —	\$ 2,400	\$ —	\$ —
Notes payable (1)	2,026	410	1,616	—	—
Operating leases	7,572	1,443	2,932	1,880	1,317
Capital leases	198	153	45	—	—
Total contractual cash obligations	\$ 12,196	\$ 2,006	\$ 6,993	\$ 1,880	\$ 1,317

(1) To be repaid with a portion of our proceeds from this offering.

Off-Balance Sheet Arrangements

We do not have any transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), *Share-Based Payment* (Statement 123(R)), which is a revision of SFAS No. 123. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values. Pro forma disclosure is no longer an alternative. We adopted the provisions of Statement 123(R) on October 1, 2005, using the prospective method. Unvested stock-based awards issued prior to October 1, 2005 and disclosed in the accompanying September 30, 2005 consolidated financial statements using the minimum value method (rather than the estimated fair value using the Black-Scholes option pricing model) will be accounted for at the date of adoption using the intrinsic value method originally applied to those awards. Therefore, in the future, we will not have any compensation expense related to these awards.

As permitted by SFAS No. 123, we currently account for share-based payments to employees using the intrinsic value method and, as such, recognizes no compensation cost when employee stock options are granted with exercise prices equal to the fair value of the shares on the date of grant. Accordingly, the adoption of Statement 123(R)'s fair value method may have a significant impact on our results of

operations, although it will have no impact on its overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend significantly on levels of share-based payments granted in the future.

Quantitative and Qualitative Disclosures about Market Risk

Interest rate sensitivity. After the completion of the offering, we will not have any debt and thus will not have any related interest rate exposure. Our investment policy requires us to invest funds in excess of current operating requirements. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss.

As of September 30, 2005, our cash and cash equivalents consisted primarily of money market funds. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities. Our interest income is sensitive to changes in the general level of interest rates in the United States, particularly since the majority of our investments are short-term in nature. Due to the nature of our short-term investments, we have concluded that we do not have material market risk exposure.

Exchange rate sensitivity. We consider our exposure to foreign currency exchange rate fluctuations to be minimal, as less than five percent of our sales are denominated in foreign currencies. We have not engaged in any hedging or other derivative transactions to date.

Overview

We are a leading online auction marketplace for wholesale, surplus and salvage assets. We enable buyers and sellers to transact in an efficient, automated online auction environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of wholesale, surplus and salvage assets presented with digital images and other relevant product information. Additionally, we enable our corporate and government sellers to enhance their financial return on excess assets by providing a liquid marketplace and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. We organize our products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, and specialty equipment. Our online auction marketplaces are www.liquidation.com, www.govliquidation.com and www.uksurplus.com. We also operate a wholesale industry portal, www.goWholesale.com, that connects advertisers with buyers seeking products for resale and related business services.

We believe our ability to create liquid marketplaces for wholesale, surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers. This flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the year ended September 30, 2005, the number of registered buyers grew from approximately 264,000 to approximately 386,000, and the number of monthly searches on our websites grew from approximately 1.3 million to 3.9 million. During the past three fiscal years, we have conducted over 436,000 online transactions generating approximately \$264 million in gross merchandise value. Approximately 90% of our initial listings have resulted in a completed cash sale during the past three fiscal years.

In the fiscal year ended September 30, 2005, we generated revenue of \$89.4 million through multiple sources, including transaction fees from sellers and buyers, revenue sharing arrangements, value-added service charges and online advertising fees. Our revenue has grown at a compound annual growth rate of approximately 26% since fiscal year 2002. Additionally, we have been profitable and cash flow positive for each quarter since the fourth quarter of fiscal year 2002.

Industry Overview

While a well-established forward supply chain exists for the procurement of assets, most manufacturers, retailers, corporations and government agencies have not made significant investments in the reverse supply chain process. The reverse supply chain addresses the redeployment and remarketing of wholesale, surplus and salvage assets. These assets generally consist of retail customer returns, overstock products and end-of-life goods from both the corporate and government sectors. According to D.F. Blumberg Associates, Inc., a research and consulting firm, the estimated reverse logistics market in North America will grow from approximately \$38.5 billion in 2004 to over \$63.1 billion in 2008.

The supply of wholesale, surplus and salvage assets in the reverse supply chain results from a number of factors, including:

- *Supply chain inefficiencies.* Forecasting inaccuracies, manufacturer overruns, cancelled orders, evolving market preferences, discontinued product lines, merchandise packaging changes and seasonal fluctuations result in the growth of surplus assets.

- *Product innovation.* Continuous innovation in technology products, such as computer and office equipment, consumer electronics, and personal communication and entertainment devices, results in a continuous flow of surplus assets.
- *Return policies of large national and online retailers.* The flexible return practices of many large national retailers and online shopping sites result in a continuous supply of returned merchandise, a significant portion of which must be liquidated.
- *Compliance with government regulations.* An increasingly stringent regulatory environment necessitates the verifiable recycling and remarketing of surplus assets that would otherwise be disposed of as waste.

Organizations that manufacture, distribute, sell or use finished goods regularly need to dispose of excess inventory or returned merchandise. We believe the management and remarketing of surplus assets traditionally has been an inefficient process. While many organizations spend considerable resources developing systems and channels supporting the flow of finished goods to their core customers, we believe that many have not historically dedicated significant resources to the reverse supply chain. Factors contributing to these inefficiencies in the reverse supply chain include the lack of:

- a centralized and global marketplace to sell bulk products in the reverse supply chain;
- awareness of available methods and mechanisms for disposal of surplus assets;
- experience in managing the reverse supply chain; and
- product information and tracking as surplus assets move through the reverse supply chain.

Traditional methods of surplus asset disposition include ad-hoc, negotiated direct sales, utilization of individual brokers or sales agents and live on-site auctions. Additionally, we believe brokers specializing in surplus asset disposition are generally highly fragmented, geographically dispersed and predominantly small business owners. The manual, negotiated and geographically dispersed nature of traditional surplus resale methods result in a lack of pricing transparency for offered goods and a lower number of potential buyers and bids, which we believe typically lead to lower recovery rates for sellers.

A significant number of professional buyers seek wholesale, surplus and salvage assets. They include online and offline retailers, convenience and discount stores, value-added resellers such as refurbishers and scrap recyclers, import and export firms and small businesses. Traditionally, these buyers have had limited access to large sellers of surplus assets, relying instead on their own network of industry contacts and fixed-site auctioneers to locate, evaluate and purchase specific items of interest. Traditional methods are inefficient for buyers due to the lack of:

- global access to an available supply of desired assets;
- efficient and inexpensive sourcing processes;
- a professionally managed central marketplace;
- detailed information and product description for the offered goods; and
- pricing transparency or ability to compare asset prices.

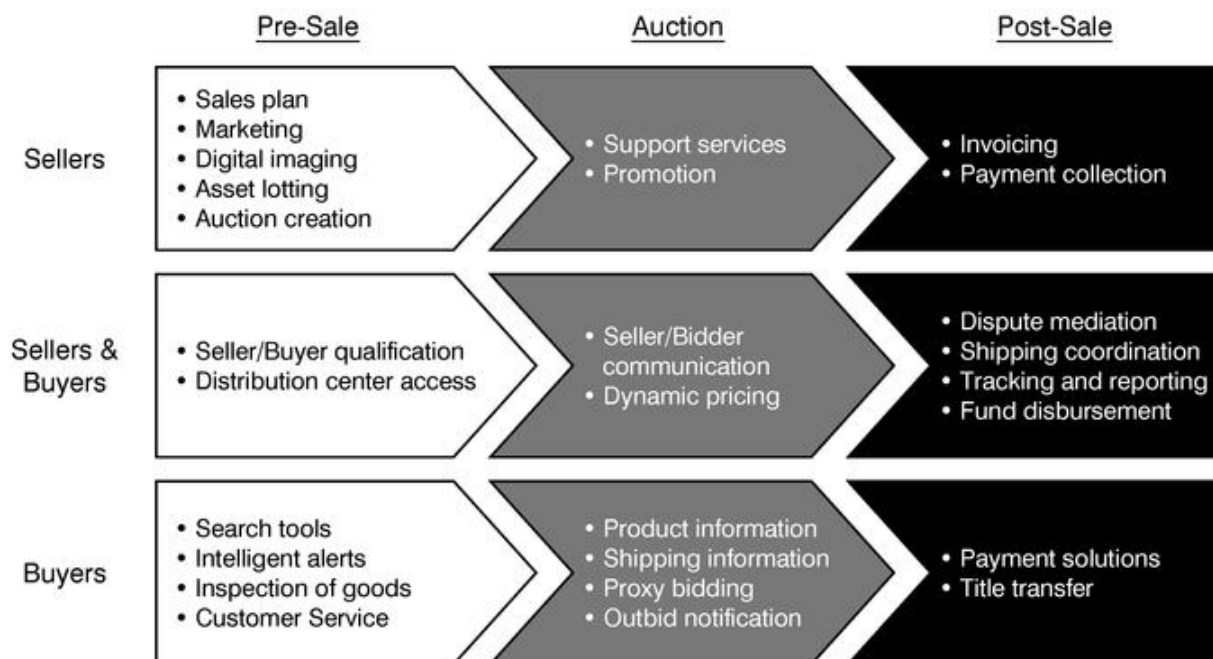
The Internet has emerged as a global medium enabling millions of people worldwide to share information, communicate and conduct business electronically. International Data Corporation (IDC), a provider of global IT research and advice, estimates global business-to-business, or B2B, e-commerce will increase at a compound annual growth rate of 27.9% between 2004 and 2009 from \$2,176 billion to \$7,446 billion. (Source: IDC, Worldwide Internet Usage and Commerce 2005-2009 Forecast)

Version 10.1, Doc #34256, October 2005). We believe professional buyers of wholesale, surplus and salvage assets increasingly will use the Internet to identify and source goods available for immediate purchase.

Our Solution

Our solution is comprised of our online auction marketplaces, value-added services and our wholesale search and advertising portal. Our marketplaces and services are designed to provide sellers with a comprehensive solution to quickly bring surplus assets to market and enhance the financial value realized from the sale of these surplus assets while providing buyers with confidence in the goods they purchase. We provide sellers access to a liquid marketplace with thousands of professional buyers. Through our relationships with sellers, we provide buyers convenient access to a substantial and continuous flow of wholesale, surplus and salvage assets. We provide buyers with products in over 500 categories in lot sizes ranging from full truck loads to pallets, packages and large individual items. Our solution combines centralized marketplaces with a full suite of integrated sales, marketing, merchandising, fulfillment, payment collection, dispute mediation and logistics services. We provide sellers a convenient method of remarketing wholesale, surplus and salvage assets, including preparation of sales information, optional warehousing of goods, settlement and transaction reporting. For any given asset, buyers have access in a centralized location to a detailed product description, product manifest, digital images of a product, relevant transaction history regarding the seller, shipping weights, product dimensions and estimated shipping costs to the buyer's location.

The following chart provides a summary of our online marketplace solution:



We believe our marketplaces benefit over time from greater scale and adoption by our constituents. As of September 30, 2005, we had aggregated approximately 386,000 registered professional buyers in our marketplaces. Aggregating this level of buyer demand enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of professional buyers. During the fiscal year ended September 30, 2005, we had approximately 848,000 auction participants in our online auctions from our registered buyers. During fiscal year 2005,

we grew our registered buyer base by 46.2% or approximately 122,000. As buyers continue to discover and use our online trading platform as an effective method to source assets, we believe our marketplaces become an increasingly attractive sales channel for corporations and government agencies. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

Our Competitive Strengths

We have created liquid marketplaces for virtually any type, quantity or condition of wholesale, surplus or salvage assets. The strengths of our business model include:

Aggregation of supply and demand for wholesale, surplus and salvage assets

Our ability to aggregate sellers and buyers through our marketplaces is a fundamental strength of our business model. Sellers benefit from a liquid market and more competitive bidding through our large base of professional buyers, which enhances returns. Buyers benefit from our relationships with high-volume, corporate and government sellers, which provides them with continuous access to a comprehensive selection of wholesale, surplus and salvage assets. Our solution eliminates the need for sellers and buyers to rely on the highly fragmented and geographically dispersed group of traditional liquidators. Instead, sellers and buyers can conveniently access our online marketplaces for all of their wholesale, surplus and salvage asset needs.

Integrated and comprehensive solution

Our marketplaces are designed to provide sellers and buyers with a comprehensive solution for the online sale and purchase of wholesale, surplus and salvage assets. We offer a full suite of value-added services to simplify the sales process for sellers and improve the utility of our marketplaces for buyers. For corporate and government sellers, we provide sales, marketing, logistics and customer support services that are fully integrated with our marketplaces, creating operational and informational efficiencies. For many of these sellers, asset disposition is not a core business function or where they desire to dedicate internal resources. With our solution, we manage each step of the transaction for sellers. Sellers simply make goods available at their facilities or deliver them to our distribution centers and we deliver the profits after the sale is completed. We provide a one stop solution to enable professional buyers of any size throughout the world to purchase assets in an efficient manner. For these buyers, we provide a broad range of services to give them the information necessary to make a more informed bid and to ensure that they ultimately receive the goods purchased. Our buyer services include intelligent alerts, search tools, dynamic pricing, shipping and delivery, secure settlement, live customer support and dispute resolution. Our solution also includes our wholesale industry portal, which provides sellers with an opportunity to target advertising to wholesale buyers and provides buyers with access to a single online destination for sourcing wholesale products and related services.

Flexible and aligned transaction model

We offer two primary transaction models to our sellers, consignment and profit sharing. Under both models, our compensation is based on the proceeds received from cash sales. These profit sharing arrangements are designed to maximize returns for us and our sellers by aligning our economic interests.

Faster cycle times for our sellers

We believe our marketplace solution allows sellers to complete the entire sales process more rapidly than through traditional auction methods. Our solution generally reduces the sales and

marketing cycle as compared to traditional auction methods. As a result, sellers are able to reduce inventory quickly, generate additional working capital and reduce the cost of carrying unwanted assets.

Our Strategy

Our objective is to build upon our position as a leading online marketplace for selling wholesale, surplus and salvage assets. The key elements of our strategy are:

Grow our buyer base and increase the total number of auction participants

We intend to increase our buyer base and the total number of auction participants and competition within each auction by attracting new buyers and leveraging our database of existing professional buyers. We intend to attract new buyers by using a variety of online and traditional marketing programs. In addition, we plan to use the comprehensive buyer profiles, preferences and transactional data we have compiled over the past several years for our existing professional buyers to enable us to identify and market assets available through our auctions to the most likely buyers. We believe these initiatives will help us to increase the total number of auction participants, lead to higher selling prices and increase loyalty among our buyer base.

Increase penetration of existing sellers

We intend to increase our sales by increasing business with our existing sellers. For many of our sellers, we currently handle only a small portion of the available supply of these assets. In recent years, we have developed relationships with large corporations and government agencies that offer significant growth opportunities by increasing our share of their supply of surplus assets. For example, on behalf of the United States Department of Defense, we initially handled sales of its surplus personal property classified as "useable" in the United States and have recently expanded this relationship to include additional locations and property classifications, such as "useable" surplus property in the United Kingdom and surplus "scrap" property in the United States.

Develop new seller relationships

We intend to attract additional corporate and government sellers to our marketplaces. We believe the vast majority of corporations and government agencies still rely on inefficient traditional disposition methods for their surplus assets such as regional auctions or bulk sales to local buyers and liquidators. We believe our demonstrated performance record coupled with an expanded sales and marketing initiative will allow us to attract additional corporate and government sellers. As part of our sales and marketing initiative, we plan to hire additional sales professionals and increase our marketing and advertising to sellers in our target markets.

Develop and enhance features and services

We intend to develop and enhance marketplace features and services that benefit both buyers and sellers. With each completed auction, we gain greater insight into the optimal ways of marketing goods in the reverse supply chain and the needs of buyers and sellers within the wholesale industry. Recent new service offerings, such as automated shipping coordination, return processing for retail sellers and online invoicing, have enhanced our operations and user experience. We intend to continue to develop new tools to further automate our solution in order to enhance the value we provide to buyers and sellers and improve the scalability of our business.

Expand our wholesale industry portal business

We intend to further expand our advertising and search engine distribution network and develop products that enable wholesale buyers and sellers to more readily create and organize relevant industry

information. As a result, our growing base of advertisers can cost-effectively connect with these potential customers of wholesale, surplus and salvage assets. Our wholesale industry portal provides another value-added resource to assist buyers and sellers in sourcing goods and services via the Internet.

Acquire complementary businesses

We intend to increase our share of the supply of wholesale, surplus and salvage goods sold by expanding our operations geographically and across new complementary markets. To support this growth, we intend to continue our disciplined and targeted acquisition strategy. Our approach focuses on identifying target companies that will offer us new or complementary areas of expertise, technology advancements, client bases and geographic territories. In considering each acquisition scenario, we evaluate the merits of the individual opportunity and determine whether to employ a "buy" or "build" strategy.

Our Marketplaces

Our online auction marketplaces serve as an efficient and convenient method for the sale of wholesale, surplus and salvage assets. Through our online auction sites, sellers and professional buyers come together to transact for goods sold "as-is, where-is," generally without the discretionary right to return the merchandise. Items sold in our marketplaces range from new, used, salvage and scrap materials. We operate the following online marketplaces:

- Our www.liquidation.com marketplace enables corporations and selected federal government agencies located in the United States to sell wholesale, surplus and salvage assets. This marketplace and our related services are designed to meet the needs of clients selling to domestic and international buyers. Such needs may include buyer qualification, brand and channel relationships protection, and shipping and logistics management.
- Our www.govliquidation.com marketplace enables selected federal government agencies to sell surplus and scrap assets. In addition to goods sold on behalf of other federal agencies, all of the surplus and scrap assets we sell as the exclusive contractor of the Defense Reutilization and Marketing Service of the U.S. Department of Defense are sold in this marketplace. To satisfy the requirements of U.S. federal government agency sellers, this marketplace incorporates additional terms and conditions of sale, such as U.S. Trade Security Controls clearance for the sale of export-controlled property.
- Our www.uksurplus.com marketplace enables U.K.-based corporations and government agencies, including the U.K. Ministry of Defence, to sell goods to European and other international buyers. While all of our marketplaces reach a global buyer base, we recognize that high shipping costs can impact the amount a buyer is willing to bid for goods. As a result, we created this marketplace to geographically align European sellers and buyers.

Our three online auction marketplaces are designed to address the particular requirements and needs of our constituents. Although our buyers may access and register on a single marketplace, we use numerous cross-marketing and cross-promotional methods to ensure that buyers are exposed to all of our marketplaces and to all product categories in which they have expressed an interest. For example, we display cross-search results for all our marketplaces in response to key word searches in a single marketplace.

Our Value-Added Services

We have integrated value-added services into our solution to simplify the sale process for sellers and improve the utility of our marketplaces for buyers. Unlike other online auction sites on which

sellers post information on the auction website and deal directly with the buyer to complete a sale, we manage each step of the transaction. We perform all required pre-sale value-added services such as receiving and lotting of the merchandise and implementing marketing strategies. After an online auction transaction is executed, we perform all required post-sale value-added services such as payment collection, settlement and reporting. We believe these services contribute significantly to an enhanced selling price and a higher level of confidence for our buyers. Additionally, we improve compliance with the various policies, regulations and sale restrictions of our corporate and government sellers. Our employees provide the majority of our value-added services, outsourcing to third-party vendors in limited cases.

Seller services. We offer value-added services to sellers in three areas: (1) sales and marketing, (2) logistics and (3) settlement and customer support.

- *Sales and marketing.* Sales and marketing efforts encompass all of the services necessary to prepare merchandise for a successful auction and include the following:
 - Marketing and promotion—We use a variety of both online and traditional marketing methods to promote our seller's merchandise and generate interest in each auction.
 - Asset lotting and merchandising—We leverage our industry experience to organize merchandise in lot sizes and product combinations that meet buyer preferences.
 - Product information enhancement—We photograph and upload digital images of the merchandise to be sold and combine the images in a relevant format. In order to increase the realized sales value, we also research, collect and use supplemental product information to enhance product descriptions.
- *Logistics.* We provide standard and optional logistics services designed to support the receipt, handling, transportation and tracking of merchandise offered through our marketplaces, including the following:
 - Distribution centers—We provide sellers with the flexibility of either having us manage the sales process at their location or delivering merchandise to one of our distribution centers.
 - Inventory management—Sellers benefit from our management and inventory tracking system designed so that merchandise is received, processed and delivered in a timely manner.
 - Cataloguing merchandise—We catalogue all merchandise, which enables us to provide useful product information to buyers. We provide a detailed manifest for lots containing multiple goods. In certain circumstances, we will inspect the merchandise and provide condition descriptions.
 - Delabeling—We can remove labels and product markings from merchandise prior to sale to protect sellers' brand equity and distribution relationships.
 - Outbound fulfillment—We can arrange for domestic or international shipping for all merchandise, whether located in one of our distribution centers or at a seller's facility.
- *Settlement and customer support.* Settlement and customer support services are designed for successful completion of transactions and include:
 - Buyer qualification—We qualify buyers to ensure their compliance with applicable government or seller mandated terms of sale, as well as to confirm their ability to complete a transaction.
 - Collection and settlement—We collect all payments on behalf of sellers prior to delivery of any merchandise and only disburse the profits to the seller after the satisfaction of all conditions of a sale.
 - Transaction tracking and reporting—We enable sellers to track and monitor the status of their transactions throughout the sales process. We provide a range of comprehensive reporting services to sellers upon the completion of a transaction. Our invoicing and reporting tools can be integrated with the seller's information system, providing a more efficient flow of data.
 - Customer support and dispute resolution—We provide full customer support throughout the transaction process and dispute resolution for our customers if needed.

Buyer services. Many of the services we provide to sellers also benefit buyers by providing them with the information necessary to make a more informed bid and to receive the goods they purchased. Our buyer focused services include the following:

- Intelligent alerts—We automatically notify buyers of upcoming auctions based on their registered preferences and prior transaction history. Registered preferences can be as broad as a product category or as specific as a part number or key word. We use this information to generate automated notifications whenever we identify a product that fits a buyer's registered preference, when auctions are nearing conclusion and based on various other parameters.
- Search tools—Buyers can search our marketplaces for products based on a variety of criteria including product category, keyword, lot size, product condition, product geographic location and auction ending date.
- Dynamic pricing tools—We offer multiple dynamic pricing tools including outbid notification, automated bid agent and automatic auction extension. For example, our automatic extension feature allows auctions to continue in set increments until the last bid is received, thus enhancing the pricing of goods.
- Shipping quote—We provide buyers with the information necessary to estimate the shipping costs associated with their purchase, such as shipping weights, packaging type and product dimensions.
- Delivery and shipping—We can provide packaging and shipping services for sales transactions.
- Secure settlement—In addition to qualifying sellers, providing several electronic payment options and serving as a trusted market intermediary, we verify transaction completion, which in turn enhances buyer confidence.
- Customer support and dispute resolution—We provide full customer support throughout the transaction process and dispute resolution for customers if needed.

Our Wholesale Industry Portal

In June 2004, we launched *www.goWholesale.com*, a wholesale industry portal supported by advertising and search services. *goWholesale.com* provides buyers of wholesale, surplus or salvage goods with tools to search for goods on the Internet and provides an avenue for manufacturers, drop shippers, distributors, importers and wholesalers to reach professional buyers. *goWholesale.com* also provides a single online destination for buyers to find specific products for resale and related business services. We developed this portal to provide advertisers with the ability to reach our growing network of professional buyers. Additionally, we believe that users of this site may have an interest in products offered in our marketplaces.

Our *goWholesale.com* portal is designed to allow advertisers to reach highly targeted wholesale buyer audiences in a more effective and efficient manner than other major search engine alternatives. Our wholesale industry portal focuses on three broad areas: generating leads for advertisers; providing access to a broad range of industry specific content for professional buyers; and creating an online community for the exchange of information by participants in the wholesale industry.

Each component of our portal delivers a variety of services, including:

Lead generation	Content	Community
<ul style="list-style-type: none"> • Key word advertising • Banner advertising • Seller directory • Sponsorship • Newsletter advertising 	<ul style="list-style-type: none"> • Wholesale auctions • Industry news • Classified ads • Trade show directory 	<ul style="list-style-type: none"> • Community forum • Seller ratings • Web logs (blogs) • Web seminars

Sales and Marketing

We utilize a direct sales and marketing force to acquire and manage our seller accounts. As of September 30, 2005, we had 28 sales and 17 marketing personnel. Our sales activities are focused primarily on acquiring new sellers and our marketing activities are focused primarily on acquiring new buyers and increasing existing buyer participation.

Sales

Our sales personnel develop seller relationships, establish agreements to provide our services and manage the business accounts on an on-going basis. Our sales representatives focus on building long-term relationships with sellers that we believe will generate recurring transactions. They also leverage our years of experience and database of completed transactions to identify which of our various services would be beneficial to each new or existing seller.

Our sales group is organized to serve three distinct groups of sellers: large corporate accounts, medium to small corporate accounts and government accounts. This approach is based on our experience in understanding and serving the unique needs of each type of seller:

- *Large corporate sellers.* These sellers require a customized approach, using a combination of our industry-focused sales team and our value-added services to create a comprehensive solution.
- *Medium to small corporate sellers.* These sellers are offered a turn-key solution enabling them to self-serve in our marketplaces by accessing tools and resources such as uploading product photographs and descriptions.
- *Government sellers.* These sellers require a customized approach. Sales efforts are both pro-active and re-active, including responding to already structured contract proposal requests and assisting government agencies in developing the appropriate scope of work to serve their needs.

Our sales personnel receive a salary and performance-based commissions.

Marketing

We use a variety of online and traditional marketing to attract and activate professional buyers to maximize the number of bidders participating in our online marketplaces as well as to support our sales team:

- *Buyer acquisition.* We utilize online marketing, including paid search advertising, search engine optimization, affiliate programs and cross promotion on all of our marketplaces to acquire new buyers. We supplement this online marketing with special event print media, classified advertisements and selected direct mail campaigns. Public relations campaigns, participation in trade shows and speaking engagements also complement our overall buyer acquisition efforts.
- *Buyer participation.* We use a variety of tools to increase buyer participation, including: targeted opt-in e-mail newsletters that rely on the buyer's stated categories of interest and past bidding or transaction activity; special e-mail alerts highlighting specific products of interest; convenient search tools that enable a buyer or prospective buyer to find desired items on our online marketplaces; and saved search agents that automatically alert registered buyers when items of interest are added to our marketplaces.
- *Market research.* In order to better target buyers by industry segment, geographic location or other criteria, our marketing department has gathered data and information from each of the buyer segments we serve. In addition, the marketing department conducts regular surveys to

better understand buyers' behavior and needs. We have a privacy policy and have implemented security measures to protect this information.

- *Sales support.* Our marketing department creates supporting documentation and research to support our sales team in presenting our company to potential sellers and buyers, including sales brochures, white papers and participation in selected trade shows.

All marketing activities are measured according to the level of auction participation derived in our marketplaces and the cost effectiveness of each action.

Technology and Infrastructure

Our marketplaces are fully web-based and can be accessed from any Internet enabled computer by using a standard web browser. Our technology systems enable us to automate and streamline many of the manual processes associated with finding, evaluating, bidding on, paying for and shipping wholesale, surplus and salvage assets. The technology and content behind our marketplaces and integrated value-added services were developed in-house by full-time employees, providing us with control and the ability to make rapid enhancements to better fit the specific needs of our business and customers. Our marketplaces are supported by a common database architecture and a shared system application. This infrastructure provides:

- an efficient channel to sell online through a variety of pricing mechanisms (standard auction, sealed bid, Dutch auction and fixed price);
- a scalable back office that enables buyers and sellers to efficiently manage transactions among remote business users by utilizing account management tools, including payment collection, invoicing management, shipping and transaction settlement; and
- an input/output agnostic platform, including conduits that enable us to integrate seamlessly with partner enterprise applications of sellers and third party service providers.

We have designed our websites and supporting infrastructure to be highly robust and to support new services and increased traffic. Our servers are fully-managed and hosted in a physically and network-secure environment at data centers in Ashburn, Virginia, which is managed by Equinix, Inc., and in Phoenix, Arizona, which is managed by Sterling Network Services. Every critical piece of our application is fully redundant and we maintain off-site back-ups as well as a disaster recovery facility. Our network connectivity offers high performance and scalability to accommodate increases in website traffic. Since January 1, 2003 we have experienced no material service interruptions on our online marketplaces.

Our applications support multiple layers of security, including password-protected log-ins, encryption technology to safeguard information transmitted in web sessions and firewalls to help prevent unauthorized access to our network and servers. We devote significant efforts to protect our systems from intrusion.

Operations

Supporting large organizations that have a recurring need to sell surplus, wholesale and salvage assets requires systematic processes to enhance the financial value and convenience received by our customers. We believe we have integrated all of the required operational processes into our solution to allow our online auctions to run efficiently and to effectively support our buyers and sellers. Our operations group is comprised of three functions: (1) buyer relations; (2) shipping logistics; and (3) distribution center operations.

Buyer relations

Our buyer relations group supports the completion of buyer transactions by managing the buyer registration and qualification process, answering questions and requests from buyers, collecting buyer payments and resolving disputes. Our websites contain extensive information about buying through our online marketplaces, including an online tutorial regarding the use of our marketplaces, answers to frequently-asked buyer questions and an indexed help section. Buyers are able to contact a customer service representative by e-mail or phone if they need additional support.

Shipping logistics

Our shipping logistics group manages and coordinates inbound and outbound shipping of merchandise for sellers and buyers. We offer, as part of our value-added services, integrated shipping services and price quotes through multiple shipping carriers. In addition, our shipping coordination group personnel monitor the performance and service level of our network of carriers to ensure speed and quality.

Distribution center operations

Our distribution center operations group performs selected pre-sale and post-sale value-added services at our distribution centers and at seller locations. These activities include unloading, manifesting and reporting of discrepancies for all received assets and the sales preparation of offered assets, including lotting and organizing offered assets, writing product descriptions, capturing digital images, and providing additional optional value-added services such as delabeling, cleaning and repackaging. Our distribution center operations group personnel also arrange the outbound shipping or pick-up of purchased assets with our buyers.

Competition

The online services market for auctioning or liquidating wholesale, surplus and salvage assets is competitive and growing rapidly. We currently compete with:

- other e-commerce providers, such as Amazon.com, GSI Commerce and Overstock.com;
- auction websites such as eBay, Yahoo! Auctions and uBid; and
- traditional liquidators and fixed-site auctioneers.

We expect our market to become even more competitive as traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of wholesale, surplus and salvage assets. In addition, manufacturers, retailers and government agencies may decide to create their own websites to sell their own wholesale, surplus and salvage assets and those of third parties. Competitive pressures could harm our business, financial condition and operating results.

Some of our other current and potential competitors have longer operating histories, larger client bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, some of these competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to website and systems development than we are able to do. Increased competition may result in reduced operating margins and loss of market share. We may not be able to compete successfully against current and future competitors.

Our Contracts with the United States Department of Defense

We are the exclusive contractor with the Defense Reutilization and Marketing Service, or DRMS, for the sale of surplus and scrap assets of the United States Department of Defense, or DoD, in the United States. This relationship provides a significant supply of goods that we offer to our buyer base through our online marketplace www.govliquidation.com. In support of these contracts, we manage property in over 1 million square feet of military warehouse space at over 150 military bases throughout the United States.

We have two material contracts with DoD under which we acquire, manage and sell government property. The largest contract was awarded in June 2001 and relates to usable surplus property of DoD turned into DRMS and located in the United States, Puerto Rico and Guam, such as computers, electronics, office supplies, equipment, aircraft parts, clothing and textiles. The second contract was awarded in June 2005 and relates to substantially all scrap property of DoD turned into the DRMS, such as metals, alloys, and building materials. Property sold under the contracts is "demilitarized" prior to sale and does not include weapons or hazardous materials. The contracts also require us to satisfy export compliance and other regulatory requirements in connection with sales. To this end, we collect information from potential customers prior to sale to prevent sales to persons or entities that appear on any list of restricted or prohibited parties maintained by the United States or other governments or who are from, or located in, any country subject to economic sanctions or other embargoes imposed by any government.

The surplus contract expires in June 2008 and accounted for 95.8%, 91.0% and 87.5% of our revenue and 80.5%, 77.5% and 76.5% of our gross merchandise value for the fiscal years ended September 30, 2003, 2004 and 2005, respectively. The scrap contract expires in August 2012, subject to the DoD's right to extend for three additional one-year terms. The scrap contract was not operational until August 2005 and accounted for less than 1% of our revenue in fiscal year 2005. The contracts were awarded in competitive bids conducted by DoD, and we may be required to go through a new competitive bidding process when our existing contracts expire.

Under the surplus property contract, we are obligated to purchase all DoD surplus property at prices representing a percentage of the original acquisition cost. Under the scrap contract, we acquire scrap property at a per pound price. When we resell property under the contracts, we are entitled to approximately 20% of the profits of sale (defined as gross proceeds of sale less allowable operating expenses) and DoD is entitled to approximately 80% of the profits. DoD also reimburses us for actual costs incurred for packing, loading and shipping property under the contracts that we are obligated to pick up from non-DoD locations.

The contracts may be terminated by DoD or us if rate of return proceeds performance ratios do not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. For the fiscal year ended September 30, 2005, the surplus contract performance ratio was more than double the required benchmark ratio. The first testing period for the scrap contract will be the twelve month period ending on June 30, 2006. DoD also has the right to audit our performance under the contracts. DoD may terminate the contracts and seek other contract remedies in the event of material breaches, provided that it provides us notice and a 30-day opportunity to cure such breaches.

Government Regulation

We are subject to federal and state consumer protection laws, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices. Furthermore, the growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens on online companies. Many jurisdictions also regulate "auctions" and "auctioneers" and may regulate online auction services.

These consumer protection laws and regulations could result in substantial compliance costs and could interfere with the conduct of our business.

In many states, there is currently great uncertainty whether or how existing laws governing issues such as property ownership, sales and other taxes, auctions and auctioneering, libel and personal privacy apply to the Internet and commercial online services. These issues may take years to resolve. For example, tax authorities in a number of states, as well as a Congressional advisory commission, are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes. New legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes or regulatory restrictions on our business. These taxes or restrictions could have an adverse effect on our cash flows and results of operations. Furthermore, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements.

In connection with our contracts with the U.S. federal government, the U.S. federal government has the right to audit and review our performance on our government contracts, as well as our compliance with applicable laws and regulations. In addition, our business is subject to government regulation based on the products we sell under our government contracts. We sell merchandise, such as scientific instruments, information technology equipment and aircraft parts, that is subject to government requirements such as obtaining an export license or an end use certificate from the buyer. In the United States, these requirements include, among others, the U.S. Export Administrative Regulations, International Traffic in Arms Regulations and the Foreign Assets Control Regulations. If a government audit uncovers improper or illegal activities, or if we are alleged to have violated any laws or regulations governing the products we sell under our government contracts, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies.

Intellectual Property

We regard our intellectual property, particularly domain names, copyrights and trade secrets, as critical to our success. We rely on a combination of contractual restrictions and common law copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. These contractual restrictions include confidentiality and non-compete provisions. We generally enter into agreements containing these provisions with our employees, contractors and third parties with whom we have strategic relationships. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without our authorization. We currently are the registered owners of several Internet domain names, including *www.liquidation.com*, *www.govliquidation.com*, *www.uksurplus.com* and *www.goWholesale.com*. We pursue the registration of our domain names in the U.S. and internationally. We currently do not have any patents or registered copyrights, trademarks or service marks, but we may pursue patents or registration of such intellectual property in the future. Effective patent, copyright, trademarks, trade secret and domain name protection is expensive to maintain and may require litigation. We seek to protect our domain names in an increasing number of jurisdictions and may not be successful in certain jurisdictions.

We rely on technologies that we license from third parties. These licenses may not continue to be available to us on commercially reasonable terms in the future. As a result, we may be required to obtain substitute technology of lower quality or at greater cost, which could materially adversely effect our business, financial condition, results of operations and cash flows.

We do not believe that our business, sales policies or technologies infringe the proprietary rights of third parties. However, third parties have in the past and may in the future claim that our business, sales policies or technologies infringe their rights. We expect that participants in the e-commerce market will be increasingly subject to infringement claims as the number of services and competitors in the industry grows. Any such claim, with or without merit, could be time consuming, result in costly litigation or an injunction or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to us, or at all or may be prohibited by an injunction. As a result, any such claim of infringement against us could have a material adverse effect upon our business, financial condition, results of operations and cash flows.

Employees

As of September 30, 2005, we had 286 U.S. employees, comprising 42 in sales and marketing, 16 in technology, 13 in customer service, 191 in operations and 24 in finance and administrative functions. In addition, as of that date, in the United Kingdom, we had 18 employees, comprising 3 in sales and marketing, 2 in customer service, 10 in operations and 3 in finance and administrative functions.

We believe that we have good relationships with our employees. We have never had a work stoppage, and none of our employees is represented under a collective bargaining agreement or by a union.

Legal Proceedings

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of our business. There are no claims or actions pending or threatened against us that, if adversely determined, would in our judgment have a material adverse effect on us.

Facilities

Our headquarters, including our principal executive office and administrative office, is located in Washington, D.C. and consists of approximately 10,000 square feet. Beginning February 1, 2006, our principal executive and administrative office will be in a new location in Washington, D.C. We will occupy this space, which will consist of approximately 13,000 square feet, pursuant to a lease that will expire on January 31, 2013.

We also lease a warehouse distribution facility in Cranbury, New Jersey that consists of approximately 49,000 square feet. This lease expires on December 31, 2009. We lease another facility for warehouse storage and distribution in Dallas, Texas that consists of approximately 50,000 square feet. This lease expires on April 30, 2008. We also lease a facility in Stafford, England that consists of approximately 40,000 square feet and is used by our field and logistics personnel to manage the receipt and outbound processing of seller assets.

We lease a facility in Scottsdale, Arizona for our corporate center that serves the U.S. Department of Defense and consists of approximately 11,000 square feet. This lease expires on September 30, 2008.

Our servers are housed in data centers in Ashburn, Virginia, which is managed by Equinix, Inc., and in Phoenix, Arizona, which is managed by Sterling Network Services.

MANAGEMENT

Executive Officers, Key Employees and Directors

The following table sets forth information about our executive officers, key employees and directors, including their ages as of September 30, 2005.

Name	Age	Position
William P. Angrick, III*	37	Chairman of the Board of Directors, Chief Executive Officer and Secretary
Jaime Mateus-Tique*	38	President, Chief Operating Officer and Director
Benjamin R. Brown*	32	Chairman, LSI's Technology Advisory Committee, and Chief Technology Officer, Government Liquidation, LLC
James M. Rallo*	39	Chief Financial Officer and Treasurer
Thomas B. Burton*	47	President and Chief Operating Officer, Government Liquidation, LLC
Asad Haroon**	41	Chief Marketing Officer and General Manager, Advertising Solutions
Holger Schwarz**	42	Executive Vice President and General Manager, Liquidity Services Ltd.
Phillip A. Clough	44	Director
Patrick W. Gross	61	Director
Franklin D. Kramer	59	Director

(1) Audit committee member

(2) Corporate governance and nominating committee member

(3) Compensation committee member

* Denotes executive officer

** Denotes key employee

William P. Angrick, III is a co-founder of our company who has served as Chairman of the Board of Directors, Chief Executive Officer and Secretary of LSI since January 2000. Mr. Angrick served as Vice President of Deutsche Banc Alex. Brown's Consumer and Business Services Investment Banking Group from 1995 to 1999. Mr. Angrick holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a B.B.A. with honors from the University of Notre Dame. Mr. Angrick earned his CPA certificate in 1990.

Jaime Mateus-Tique is a co-founder of our company who has served as President, Chief Operating Officer and Director of LSI since April 2000. Mr. Mateus-Tique served as a senior engagement manager at McKinsey & Co., a management consulting firm, from September 1995 to March 2000. Mr. Mateus-Tique holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a master's degree from Ecole Des Hautes Etudes Commerciales in Paris.

Benjamin R. Brown is a co-founder of our company who has served as Chairman of LSI's Technology Advisory Committee, and Chief Technology Officer of Government Liquidation, LLC, our wholly-owned subsidiary, since August 2001. Mr. Brown served as Chief Technology Officer of LSI from January 2000 to August 2001. Mr. Brown was a consultant as lead developer and architect for IBM, Delta, Hewlett Packard, Merrill Lynch and Simon & Schuster from 1995 to 1999. Mr. Brown holds a B.B.A. with honors from the University of Georgia in Management Information Systems and Risk Management.

James M. Rallo has served as Chief Financial Officer and Treasurer of LSI since February 2005. Prior to joining our company, Mr. Rallo served as Chief Financial Officer and Treasurer of Sleep Services of America, Inc. from July 1999 to February 2005. Mr. Rallo served as Vice President of Deutsche Banc Alex. Brown's Healthcare Investment Banking Group from June 1995 to July 1999. Mr. Rallo holds an M.B.A. from the Smith School of Business at the University of Maryland and a B.S. from Washington and Lee University. Mr. Rallo earned his CPA certificate in 1991.

Thomas B. Burton has served as President and Chief Operating Officer of Government Liquidation, LLC, our wholly-owned subsidiary, since June 2001. Mr. Burton served as LSI's Director of Government Surplus from September 2000 through May 2001. Prior to joining our company in September 2000, Mr. Burton served as the Western Region Director of EG&G Technical Services, a government contractor, from August 1990 to September 2000. Mr. Burton holds a B.S. from Cameron University.

Asad Haroon has served as Chief Marketing Officer and General Manager, Advertising Solutions, of LSI since May 2004. Prior to joining our company in September 2000, Mr. Haroon served as Manager of Strategy Services for OneSoft Strategy Services, an e-commerce solutions company, from March 1999 to August 2000. Mr. Haroon holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a B.S. in computer engineering from Harvey Mudd College.

Holger Schwarz has served as Executive Vice President and General Manager of Liquidity Services Ltd., our wholly-owned subsidiary dedicated to serving European clients such as the UK Ministry of Defence, since April 2004. Mr. Schwarz served as General Manager of LSI's Central/North/Eastern Europe business unit from January 2001 to April 2004. Prior to joining our company in January 2001, Mr. Schwarz served as Marketing Director for Philips Northern Europe, a Dutch company, from February 1999 to December 2000. Mr. Schwarz holds a master's degree in economics from FSBH Dresden.

Phillip A. Clough has served as a director of LSI since September 2004. Since September 2001, Mr. Clough has been a General Partner of ABS Capital Partners ("ABS"), a private equity firm focused on investments in growth companies in the technology, business services, media and communications and health care industries. Prior to joining ABS, Mr. Clough was President and Chief Executive Officer of Sitel Corporation, a publicly traded global provider of outsourced customer support services, from May 1998 to March 2001. In addition to serving as a director of LSI, Mr. Clough currently serves on the board of directors of various private companies.

Patrick W. Gross has served as a director of LSI since February 2001. Mr. Gross has served as Chairman of The Lovell Group, a private business and technology advisory and investment firm, from October 2002. Mr. Gross is a founder of, and served in a variety of positions from 1970 to September 2002 at, American Management Systems, Inc., a publicly traded information technology consulting, software development, and systems integration firm. Mr. Gross is also a director of Capital One Financial Corporation, a publicly traded commercial bank, as well as Mobius Management Systems, Inc., a publicly traded provider of integrated solutions for total content management. Mr. Gross also currently serves on the board of directors of various private companies.

Franklin D. Kramer has served as a director of LSI since September 2001. Since February 2004, Mr. Kramer has been an independent consultant. From March 2001 to May 2005, Mr. Kramer was a lawyer with Shea & Gardner, now Goodwin Procter LLP. Mr. Kramer has served as director and consultant of Changing World Technologies, Inc., a privately held energy and environmental service company, since February 2002 and January 2004, respectively. From February 2002 to December 2003,

Mr. Kramer served as Executive Vice President of Changing World Technologies. From March 1996 through February 2001, Mr. Kramer served as Assistant U.S. Secretary of Defense for International Security Affairs. Mr. Kramer currently serves on the board of directors of various organizations and private companies.

Board of Directors

Our board of directors currently consists of five members: Messrs. Angrick, Mateus-Tique, Clough, Gross and Kramer. Upon completion of this offering, we will have a board of directors consisting of members. Our bylaws will provide that our board of directors consists of no less than or more than persons. The exact number of members of our board of directors will be determined from time to time by resolution of a majority of our full board of directors. As of the closing of this offering, a majority of our board of directors will be "independent directors" as defined under the rules of the Nasdaq Stock Market, Inc. and Rule 10A-3(b)(i) under the Securities Exchange Act of 1934.

As of the closing of this offering, our board of directors will be divided into three classes that will serve staggered three-year terms:

- Class I, whose initial term will expire at the annual meeting of stockholders to be held in 2006;
- Class II, whose initial term will expire at the annual meeting of stockholders to be held in 2007; and
- Class III, whose initial term will expire at the annual meeting of stockholders to be held in 2008.

The Class I directors will be , and , the Class II directors will be , and , and the Class III directors will be , and . At each annual meeting of stockholders after the initial classification, the successors to directors whose terms will expire on such date shall serve from the time of election and qualification until the third annual meeting following election and until their successors are duly elected and qualified. The number of directors may be changed only by resolution of a majority of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so as to ensure that no one class has more than one director more than any other classes. This classification of the board of directors may have the effect of delaying or preventing changes in control of management.

Committees of the Board

As of the closing of this offering, our board of directors will have an audit committee, a compensation committee and a corporate governance and nominating committee, each of which will have the composition and responsibilities described below:

Audit Committee. The audit committee is responsible for assisting the Board of Directors in its oversight of the integrity of our consolidated financial statements, the qualifications and independence of our independent auditors, and our internal financial and accounting controls. The audit committee has direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent auditors, and our independent auditors report directly to the audit committee. The audit committee will consist of , and will be our audit committee financial expert as currently defined under the Securities and Exchange Commission rules. We expect that each member of the audit committee will be able to read and understand fundamental financial statements, including our balance sheet, income statement and cash flows statements. We also expect that the members of the audit committee will not be employees of our company and that the Board of Directors will determine that each member of the audit committee is independent (as

independence is defined in the current listing standards of the Nasdaq Stock Market and Section 10A(m)(3) of the Securities Exchange Act of 1934).

Compensation Committee. The compensation committee determines our general compensation policies and the compensation provided to our directors and officers. The compensation committee also reviews and determines bonuses for our officers and other employees. In addition, the compensation committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option plans. The members of the compensation committee will be [redacted] and [redacted]. We expect that each member of the compensation committee will be a non-employee director within the meaning of Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934 and an independent director (as independence is defined in the current listing standards of the Nasdaq Stock Market).

Corporate Governance and Nominating Committee. The corporate governance and nominating committee is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board. In addition, the corporate governance and nominating committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board concerning corporate governance matters. The members of the corporate governance and nominating committee will be [redacted], [redacted] and [redacted]. We expect that none of the corporate governance and nominating committee will be employees of our company and that the Board of Directors will determine that each member of the corporate governance and nominating committee is independent (as independence is defined in the current listing standards of the Nasdaq Stock Market).

Compensation of Directors

Following the consummation of this offering, we intend to compensate non-employee directors for their service on our board. Each non-employee director will receive an annual retainer of \$ [redacted], with an additional payment of \$ [redacted] for each board of directors or committee meeting attended. In addition to the foregoing, the chairman of our audit committee will receive an annual retainer of \$ [redacted], and other members of the audit committee an annual retainer of \$ [redacted], for their service on the audit committee. We also reimburse our directors for their reasonable expenses incurred in attending meetings of our board of directors or committees. Non-employee directors will be eligible to receive option grants under our 2006 Omnibus Long-Term Incentive Plan described below.

Compensation Committee Interlocks and Insider Participation

None of the directors who will serve on the compensation committee following the closing of this offering has ever been employed by our company. No interlocking relationships exist between any member of our board of directors or compensation committee and the board of directors or compensation committee of any other company, nor did any interlocking relationship exist during fiscal year 2005. Messrs. Clough, Gross and Kramer served on our compensation committee during fiscal year 2005.

Executive Compensation

The following table sets forth the total compensation paid or accrued during the year ended September 30, 2005 for William P. Angrick, III, our Chief Executive Officer, and each of our four other most highly compensated executive officers whose combined salary and bonus exceeded \$100,000 during

fiscal year 2005 for services rendered to us in all capacities. In this prospectus we may refer to these officers, together with the Chief Executive Officer, as our named executive officers.

Summary Compensation Table

Name and principal position	Year	Annual compensation		Long-term compensation Awards	All other compensation(1)
		Salary	Bonus	Securities underlying options (#)	
William P. Angrick, III <i>Chairman and Chief Executive Officer</i>	2005	\$ 212,917	\$ —	—	\$ 5,250
Jaime Mateus-Tique <i>President, Chief Operating Officer</i>	2005	182,500	72,000	—	5,250
Benjamin Brown <i>Chairman, LSI Technology Advisory Committee, and Chief Technology Officer, Government Liquidation, LLC</i>	2005	181,731	65,830	—	2,870
James M. Rallo(2) <i>Chief Financial Officer and Treasurer</i>	2005	121,282	100,000	250,000	2,667
Thomas B. Burton <i>President and Chief Operating Officer, Government Liquidation, LLC</i>	2005	223,269	109,991	59,500	3,784

(1) All other compensation represents matching contributions made by us to the Liquidity Services, Inc. 401(k) Profit Sharing Plan and Trust (for Messrs. Angrick, Mateus-Tique and Rallo) and the Government Liquidation.com LLC 401(k) Plan (for Messrs. Brown and Burton).

(2) Mr. Rallo joined our company in February 2005.

Stock Options

The table below contains information concerning the grant of options to purchase shares of our common stock to the named executive officers during the year ended September 30, 2005. The percentage of total options granted to the named executive officers set forth below is based on an aggregate of 868,750 shares subject to options granted to our employees in fiscal year ended September 30, 2005.

Option Grants in Last Fiscal Year

Name	Number of securities underlying options granted	Percent of total options granted to employees in last fiscal year	Exercise price	Expiration date	Potential realizable value at assumed annual rates of stock price appreciation for option term		
					0%	5%	10%
William P. Angrick, III	—	—	\$ —	—	\$ —	\$ —	\$ —
Jaime Mateus-Tique	—	—	—	—	—	—	—
Benjamin Brown	—	—	—	—	—	—	—
James M. Rallo (1)	250,000	28.8%	2.00	2/25/15	—	—	—
Thomas B. Burton(2)	59,500	6.9%	3.00	6/8/15	—	—	—

- (1) Shares subject to this option vests 25% on February 25, 2005, the grant date, and 2.083% per month thereafter for the following 36 months. Mr. Rallo's option was granted at the fair market value of our common stock as determined by our board of directors on the date of grant. Mr. Rallo's option has a term of 10 years, subject to earlier termination in certain events related to the cessation of Mr. Rallo's employment with us.
- (2) Shares subject to this option vests as to one-fourth ($\frac{1}{4}$) on June 8, 2006, one year anniversary of the grant date, and at a rate of one-forty eighth ($\frac{1}{48}$) per month as of the first day of each month thereafter. Mr. Burton's option was granted at the fair market value of our common stock as determined by our board of directors on the date of grant. Mr. Burton's option has a term of 10 years, subject to earlier termination in certain events related to the cessation of Mr. Burton's employment with us.

The amounts shown in the table above for Mr. Rallo and Mr. Burton as potential realizable value represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These amounts represent assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant. Potential realizable values in the table above are calculated by:

- multiplying the number of shares of our common stock subject to the option by the assumed initial public offering price per share of \$.
- assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10-year term of the option.
- subtracting from that result the total option exercise price.

The 5% and 10% assumed rates of appreciation are suggested by the rules of the SEC and do not represent our estimate or projection of the future common stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock.

Fiscal Year-End Option Values

The table below sets forth information for the named executive officers with respect to the value of their options outstanding as of September 30, 2005. None of the named executive officers exercised any stock options during the year ended September 30, 2005.

Fiscal Year-End Option Values

Name	Number of securities underlying unexercised options at September 30, 2005		Value of unexercised in-the-money options at September 30, 2005(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
William P. Angrick, III	—	—	\$ —	\$ —
Jaime Mateus-Tique	—	—	—	—
Benjamin Brown	—	—	—	—
James M. Rallo	5,208	151,042	15,624	453,126
Thomas B. Burton	—	59,500	—	119,000

- (1) There was no public trading market for our common stock as of September 30, 2005. Accordingly, these values have been calculated based on the fair value of the underlying shares as of September 30, 2005 of \$5 per share, as determined by our board of directors, less the applicable exercise price per share, multiplied by the number of underlying shares.

Employment Agreements

We entered into an employment agreement with Mr. Angrick effective as of January 1, 2004. The agreement provides that Mr. Angrick will be employed as our Chairman and Chief Executive Officer and that his employment will continue until terminated by either party pursuant to the terms of the agreement. Mr. Angrick is entitled to receive an initial annual base salary under the agreement of \$210,000, which may be increased but not decreased. During fiscal year 2005, Mr. Angrick received a salary of \$212,917, which was approved by the Board of Directors. Mr. Angrick is also eligible for an annual incentive bonus as approved by our compensation committee of up to 80% of his base salary, subject to the achievement of certain milestones. He is also eligible to receive bonuses for the completion of projects that increase stockholder value. If Mr. Angrick's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts. If Mr. Angrick's employment is terminated because of disability, he is entitled to his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance. This agreement also provides that if his employment with our company is terminated by us other than for good cause, disability or death, or is terminated by Mr. Angrick for good reason, Mr. Angrick is entitled to receive (1) his base salary through the date of termination and all other unpaid amounts and (2) a lump-sum severance package equal to six months of the sum of his base salary plus an amount equal to his average annual bonus for the previous two fiscal years. All severance payments made by us to Mr. Angrick will be payable within 30 days of notice of termination.

We entered into an employment agreement with Mr. Mateus-Tique effective as of January 1, 2004. The agreement provides that Mr. Mateus-Tique will be employed as our President and Chief Operating Officer and that his employment will continue until terminated by either party pursuant to the terms of the agreement. Mr. Mateus-Tique is entitled to receive an initial annual base salary under the agreement of \$180,000, which may be increased but not decreased. During fiscal year 2005, Mr. Mateus-Tique received a salary of \$182,500, which was approved by the Board of Directors. Mr. Mateus-Tique is also eligible for an annual incentive bonus as approved by the compensation

committee of up to 67% of his base salary, subject to the achievement of certain milestones. He is also eligible to receive bonuses for the completion of projects that increase shareholder value. If Mr. Mateus-Tique's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts. If Mr. Mateus-Tique's employment is terminated because of disability, he is entitled to his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance. This agreement also provides that if his employment with our company is terminated by us other than for good cause, disability or death, or is terminated by Mr. Mateus-Tique for good reason, Mr. Mateus-Tique is entitled to receive (1) his base salary through the date of termination and all other unpaid amounts and (2) a lump-sum severance package equal to six months of the sum of his base salary plus an amount equal to his average annual bonus for the previous two fiscal years. All severance payments made by us to Mr. Mateus-Tique will be payable within 30 days of notice of termination.

We entered into an employment agreement with Mr. Brown effective as of June 15, 2001. The agreement provides that Mr. Brown will be employed as Chief Technology Officer of Government Liquidation.com, LLC, our subsidiary, and that his employment will continue until terminated by either party pursuant to the terms of the agreement. Mr. Brown is entitled to receive an initial annual base salary under the agreement of \$135,000, which may be increased but not decreased. During fiscal year 2005, Mr. Brown received a salary of \$181,731, which was approved by the Board of Directors. This agreement also provides that if his employment with our company is terminated by us other than for good cause, disability or death, or is terminated by Mr. Brown for good reason, Mr. Brown is entitled to receive (1) his base salary through the date of termination and all other unpaid amounts; (2) a lump-sum severance package equal to six months of the sum of his base salary; and (3) healthcare benefits for six months. All severance payments made by us to Mr. Brown will be conditioned upon Mr. Brown's execution of a release of all claims against us, our affiliates, officers, directors and employees. If Mr. Brown is re-employed or becomes self-employed, we may, at our option, eliminate or otherwise reduce the amount of payments owed to Mr. Brown because of termination due to disability, termination by us without good cause or termination by Mr. Brown for good reason.

We entered into an employment agreement with Mr. Rallo effective as of February 21, 2005. The agreement provides that Mr. Rallo will be employed as our Chief Financial Officer and Treasurer. Mr. Rallo is entitled to receive an annual base salary under the agreement of not less than \$200,000 and annual increases of no less than 5% of the initial base salary. Mr. Rallo joined the company in February 2005. Mr. Rallo is also eligible for an annual incentive bonus of up to 50% of his salary and it must be at least \$50,000, subject to the achievement of certain deliverables and milestones. He is also eligible to receive 6% of annualized cash savings generated for our company in the first annual period such cost savings are implemented, subject to a cap of \$100,000. Mr. Rallo also received pursuant to the agreement options to purchase 250,000 shares of our common stock in February 2005 at a per share exercise price equal to \$2.00, which was the fair value of our common stock on the date of grant as determined by our board of directors. The options granted pursuant to this agreement vest 25% upon the date of the grant and 2.083% per month thereafter for the following 36 months. This agreement also provides that if his employment with our company is terminated by us other than for good cause, disability or death, or is terminated by Mr. Rallo for good reason, Mr. Rallo is entitled to receive (1) his base salary through the date of termination and all other unpaid amounts, (2) a lump-sum severance package equal to twelve months of the sum of his base salary plus an amount equal to his average annual bonus for the previous two fiscal years and (3) a lump-sum amount that shall initially equal \$100,000 and shall decrease by 10% each month from February 2005 until December 2005. After December 2005, the lump-sum amount equal to \$100,000 will be zero. All severance payments made by us to Mr. Rallo will be payable within 30 days of notice of termination.

We entered into an employment agreement with Mr. Burton effective as of June 15, 2001, with a one year term with automatic one year renewals. The agreement provides that Mr. Burton will be employed as President of Government Liquidation, LLC, our subsidiary, and that his employment will continue until terminated by either party pursuant to the terms of the agreement. Mr. Burton is entitled to receive an initial annual base salary under the agreement of \$175,000, which may be increased but not decreased. During fiscal year 2005, Mr. Burton received a salary of \$223,269, which was approved by the Board of Directors. Pursuant to the agreement, Mr. Burton received options to purchase 200,000 shares of our common stock at a purchase price of \$0.05 per share. The options vest 25% upon the first anniversary of Mr. Burton's employment and 2.083% per month thereafter for the following 36 months. In addition, Mr. Burton is eligible to receive an initial performance bonus upon the attainment of certain milestones under the Commercial Venture II contract, which is up to 33% of his base salary. This agreement also provides that if his employment with our company is terminated by us other than for good cause or Mr. Burton's disability or death, Mr. Burton is entitled to receive (1) his base salary through the date of termination and all other unpaid amounts and (2) a lump-sum severance package equal to six months of the sum of his base salary plus healthcare benefits. All severance payments made by us to Mr. Burton will be conditioned upon Mr. Burton's execution of a release of all claims against us, our affiliates, officers, directors and employees.

We also have confidentiality, noncompetition and intellectual property agreements with the named executive officers. These agreements typically provide that the employee may not disclose or transfer any of our confidential information to any person, business entity or other organization without authorization from us, and that the employee may not, during his or her employment with us and for 24 months thereafter, compete with us or hire or solicit any of our employees for employment with another person or entity or in any way interfere with the relationship we have with any of our employees, clients or other business relations. These agreements typically also provide that all ideas, designs, works and inventions made by the employee in the course of his or her employment with us are our exclusive property, and that the copyrights of all writings produced by the employee during the course of his or her work for us are the property of our company.

Benefit Plans

2005 Stock Option and Incentive Plan

Our board of directors adopted the 2005 Stock Option and Incentive Plan, or the 2005 Plan. The 2005 Plan amended and restated our 2000 Stock Option and Incentive Plan, which was adopted by our board of directors on January 3, 2000 and approved by our stockholders on that same date. The 2005 Plan allows us to issue awards of stock options. Our and any of our subsidiaries' eligible employees and other service providers are eligible to receive awards under the 2005 Plan, including officers, directors, consultants and advisors. As of September 30, 2005, we had 913,285 options outstanding under the 2005 Plan. The Plan is administered by our board of directors, which selects the participants to receive awards and determines the terms and conditions of such awards. No additional awards will be made under the 2005 Plan after our stockholders approve the 2006 Omnibus Long-Term Incentive Plan, which is described below.

2006 Omnibus Long-Term Incentive Plan

Our board of directors approved the 2006 Omnibus Long-Term Incentive Plan, or the 2006 Plan, on _____, 2005. Our stockholders will approve the 2006 Plan prior to the offering. The purpose of the 2006 Plan is to attract and to encourage the continued employment and service of, and maximum efforts by, our officers, key employees and other key individuals by offering those persons an opportunity to acquire or increase a direct proprietary interest in our operations and future success.

Our 2006 Stock Option and Incentive Plan will be terminated when our 2006 Plan is approved by our stockholders.

There are currently _____ shares of common stock reserved for issuance under the 2006 Plan and no awards have been granted under the 2006 Plan. The maximum number of shares subject to options or stock appreciation right that can be awarded under the 2006 Plan to any person is _____ per year. The maximum number of shares that can be awarded under the 2006 Plan to any person, other than pursuant to an option or stock appreciation right, is _____ per year. The maximum amount that may be earned as an annual incentive award or other cash award in any fiscal year by any one person is _____ and the maximum amount that may be earned as a performance award or other cash award in respect of a performance period by any one person is _____.

Administration. The 2006 Plan is administered by our compensation committee. Subject to the terms of the 2006 Plan, the compensation committee may select participants to receive awards, determine the types of awards and terms and conditions of awards, and interpret provisions of the 2006 Plan. Options and stock appreciation rights may not be amended to lower their exercise prices without stockholder approval.

Stock Reserved for Issuance Under the 2006 Plan. The common stock to be issued under the 2006 Plan consists of authorized but unissued shares and treasury shares. If any shares covered by an award are not purchased or are forfeited, or if an award otherwise terminates without delivery of any common stock, then the number of shares of common stock counted against the aggregate number of shares available under the plan with respect to the award will, to the extent of any such forfeiture or termination, again be available for making awards under the 2006 Plan. In addition, if the exercise price of an option, or the withholding obligation of a grantee with respect to any award, is satisfied by tendering shares (including by attestation) or withholding shares, the number of shares tendered or withheld will not reduce the number of shares available under the 2006 Plan. Shares issued under the 2006 Plan pursuant to awards assumed in connection with mergers and acquisitions by us also will not reduce the number of shares reserved for issuance under the 2006 Plan.

Eligibility. Awards may be made under the 2006 Plan to our employees or our consultants, including to any such person who is an officer or director, and to any other individual whose participation in the 2006 Plan is determined to be in our best interests by our compensation committee.

Amendment or Termination of the Plan. The board of directors may terminate or amend the 2006 Plan at any time and for any reason; provided, that, no amendment may adversely impair the rights of grantees with respect to outstanding awards. Further, unless terminated earlier the 2006 Plan will terminate ten years after its effective date. Amendments will be submitted for stockholder approval to the extent required by the Internal Revenue Code of 1986, as amended, or other applicable laws, rules or regulations.

Options. The 2006 Plan permits the granting of options to purchase shares of common stock intended to qualify as incentive stock options under the Internal Revenue Code and stock options that do not qualify as incentive stock options ("non-qualified stock options"). The exercise price of each stock option may not be less than 100% of the fair market value of our common stock on the date of grant. However, if an optionee, who holds at least 10% of our common stocks, receives an incentive stock option, the exercise price of such incentive stock option may not be less than 110% of the fair market value of our common stock on the date of grant. An exception to these requirements is made for options that we grant in substitution for options held by employees of companies that we acquire. In such a case the exercise price is adjusted to preserve the economic value of the employee's stock option from his or her former employer.

The term of each stock option is fixed by the compensation committee and may not exceed 10 years from the date of grant. However, if an optionee, who holds at least 10% of our common stock, receives an incentive stock option, the term of such incentive stock option may not exceed 5 years. The compensation committee determines at what time or times each option may be exercised and the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

Options may be made exercisable in installments. The exercisability of options may be accelerated by the compensation committee. In general, an optionee may pay the exercise price of an option by cash, certified check, by tendering shares of our common stock (which if acquired from us have been held by the optionee for at least six months), or by means of a broker-assisted cashless exercise.

Stock options granted under the 2006 Plan may not be sold, transferred, pledged or assigned other than by will or under applicable laws of descent and distribution. However, we may permit limited transfers of non-qualified options for the benefit of immediate family members of grantees to help with estate planning concerns.

Other Awards. The compensation committee may also award under the 2006 Plan:

- restricted stock, which is shares of common stock subject to restrictions;
- stock units, which are common stock units subject to restrictions;
- dividend equivalent rights, which are rights entitling the recipient to receive credits for dividends that would be paid if the recipient had held a specified number of shares of common stock;
- stock appreciation rights, which are a right to receive a number of shares or, in the discretion of the compensation committee and subject to applicable law, an amount in cash or a combination of shares and cash, based on the increase in the fair market value of the shares underlying the right during a stated period specified by the compensation committee;
- unrestricted stock, which are shares of common stock granted without restrictions as a bonus; and
- performance and annual incentive awards, ultimately payable in common stock or cash, as determined by the compensation committee (the compensation committee may grant multi-year and annual incentive awards subject to achievement of specified goals tied to business criteria set forth in the 2006 Plan).

Section 162(m) of the Internal Revenue Code Compliance. Section 162(m) of the Internal Revenue Code limits publicly-held companies to an annual deduction for federal income tax purposes of \$1,000,000 for compensation paid to their chief executive officer and the four highest compensated executive officers (other than the chief executive officer) determined at the end of each year (the "covered employees"). However, performance-based compensation is excluded from this limitation. Although the 2006 Plan is currently not subject to Section 162(m) because Section 162(m) provides for a grace period following an initial public offering, the 2006 Plan is designed to permit the compensation committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m) at such time as the 2006 Plan becomes subject to Section 162(m).

Effect of Certain Corporate Transactions. Certain change of control transactions involving us may cause awards granted under the 2006 Plan to vest, unless the awards are continued or substituted for by the surviving company in connection with the change of control transaction.

Adjustments for Stock Dividends and Similar Events. The compensation committee may make appropriate adjustments in outstanding awards and the number of shares available for issuance under the 2006 Plan, including the individual limitations on awards, to reflect common stock dividends, stock splits, extraordinary dividends and other similar events.

401(k) Plans

We maintain the Liquidity Services, Inc. 401(k) Profit Sharing and Trust Plan, which is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. Under the terms of this plan, eligible employees may elect to contribute a portion of their eligible compensation as salary deferral contributions to the plan, subject to statutorily prescribed limits. This 401(k) plan permits, but does not require, that we make discretionary matching contributions. The employer makes a matching contribution under this 401(k) plan of 50% of the employee's pre-tax deferrals, up to 6% of the employees' eligible compensation.

Our subsidiary Government Liquidation.com, LLC maintains a separate 401(k) plan, the Government Liquidation.com LLC, 401(k) Plan, for the benefit of its employees. Under the terms of this plan, eligible employees may elect to contribute a portion of their eligible compensation as salary deferral contributions to the plan, subject to statutorily prescribed limits. The employer makes a matching contribution under this 401(k) plan of 50% of the employee's pre-tax deferrals, up to 6% of the employees' eligible compensation.

RELATIONSHIPS AND RELATED TRANSACTIONS

We have adopted a policy that all transactions between our company and our officers, directors, principal stockholders and their affiliates will be on terms no less favorable to our company than could be obtained by our company from unrelated third parties, and will be approved by the Audit Committee.

PRINCIPAL STOCKHOLDERS AND SELLING STOCKHOLDERS

The following table presents information concerning the beneficial ownership of the shares of our common stock as of October 31, 2005 by:

- each person, or group or affiliated persons, whom we know beneficially owns more than 5% of our outstanding shares of common stock;
- each of our named executive officers;
- each of our directors;
- all of our executive officers and directors as a group; and
- our stockholders selling shares in this offering.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or dispositive power over securities. The percentage of beneficial ownership is based on 19,028,054 shares of common stock outstanding as of October 31, 2005 and _____ shares of common stock outstanding after the completion of this offering. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of October 31, 2005, are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Beneficial owner(1)	Number of shares beneficially owned		Percentage of shares outstanding		Number of shares to be sold in the offering
	Before offering	After offering	Before offering	After offering(2)	
5% Stockholders:					
Entities affiliated with ABS Capital Partners(3)	3,262,643		14.6%		
Named Executive Officers, Directors and Director Nominees:					
William P. Angrick, III(4)	10,327,668		46.3		
Jaime Mateus-Tique(5)	4,594,288		20.6		
Benjamin R. Brown(6)	1,526,981		6.9		
James M. Rallo(7)	114,583		*		
Thomas B. Burton	255,000		1.1		
Phillip A. Clough(8)	3,262,643		14.6		
Patrick W. Gross	150,000		*		
Franklin D. Kramer	150,000		*		
All executive officers and directors as a group (8 persons)	20,381,163		91.4%		
Selling Stockholders:					
Other selling stockholders as a group (_____ persons)(9)					

* Less than 1% of the outstanding shares of our common stock.

(1) Unless otherwise noted, we believe that each of the stockholders has sole voting and dispositive powers with respect to the shares of common stock beneficially owned by it, him or her. In addition, unless otherwise noted, the address of each of the persons or entities included in the table is c/o Liquidity Services, Inc., 2131 K Street, NW, 4th Floor, Washington, DC 20037.

- (2) Assumes the issuance and sale of _____ shares offered hereby but excludes any common stock that may be issued upon exercise of the underwriters' over-allotment option in connection with this offering.
- (3) Consists of the following shares held by the following entities:
- (a) 2,887,105 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV, L.P. ("ABS Capital Partners IV");
 - (b) 96,664 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV-A, L.P. ("ABS Capital Partners IV-A");
 - (c) 165,817 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV Offshore, L.P. ("ABS Capital Partners IV Offshore"); and
 - (d) 113,057 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV Special Offshore, L.P. ("ABS Capital Partners IV Special Offshore," and together with ABS Capital Partners IV, ABS Capital Partners IV-A, ABS Capital Partners IV Offshore, the "ABS Entities").

ABS Partners IV, LLC is the general partner of these entities and has voting and dispositive powers over these shares. The address for these entities affiliated with ABS Capital Partners is 400 East Pratt Street, Suite 910, Baltimore, MD 21202-3116.

- (4) Includes:
- (a) 500,000 shares of common stock held by the William P. Angrick, III 2005 Qualified Grantor Retained Annuity Trust; and
 - (b) 500,000 shares of common stock held by the Stephanie S. Angrick 2005 Qualified Grantor Retained Annuity Trust.
- (5) Includes 700,000 shares of common stock held by the Jaime Mateus-Tique 2005 Qualified Grantor Retained Annuity Trust.
- (6) Includes 175,000 shares of common stock held by the Benjamin Brown 2005 Qualified Grantor Retained Annuity Trust.
- (7) Includes 20,833 shares of common stock issuable pursuant to options held by Mr. Rallo that are currently exercisable or that are exercisable within 60 days of October 31, 2005.
- (8) Consists of:
- (a) 2,887,105 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV;
 - (b) 96,664 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV-A;
 - (c) 165,817 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV Offshore; and
 - (d) 113,057 shares issuable upon conversion of our Series C Preferred Stock held by ABS Capital Partners IV Special Offshore.

Mr. Phillip Clough is a managing member of ABS Partners IV, LLC, which is the general partner of the ABS Entities. ABS Partners IV, LLC exercises voting and dispositive power over the shares held by the ABS Entities. Mr. Clough disclaims beneficial ownership of these shares except to the extent of his pecuniary interest. The address for these entities affiliated with ABS Capital Partners is 400 East Pratt Street, Suite 910, Baltimore, MD 21202-3116.

- (9) Each of these selling stockholders is selling less than _____ shares of common stock, and all such persons beneficially own, in the aggregate, less than 1% of our common stock.

DESCRIPTION OF CAPITAL STOCK

Upon the closing of this offering, our authorized capital stock, after giving effect to the conversion of all outstanding preferred stock, stock will consist of shares of common stock, \$.001 par value. The following description summarizes important terms of our capital stock. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description, you should refer to our certificate of incorporation and bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part, as well as the relevant portions of the Delaware General Corporation Law.

Common Stock

General. As of September 30, 2005, there were 19,025,971 shares of common stock outstanding and 41 stockholders of record. After this offering, there will be shares of our common stock outstanding, or shares if the underwriters exercise their over-allotment option in full.

Voting Rights. The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, including the election of directors, and do not have cumulative voting rights. Accordingly, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared by the board of directors out of legally available funds.

Liquidation, Dissolution and Winding Up. Upon our liquidation, dissolution or winding up, the holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the prior rights of any preferred stock then outstanding.

Preemptive Rights. Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking funds provisions applicable to the common stock.

Assessment. All outstanding shares of common stock are, and the common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

As of September 30, 2005, there were 3,262,643 shares of Series C preferred stock. Immediately prior to the closing of this offering, the outstanding shares of the Series C Redeemable Preferred stock will be converted into shares of common stock. The board of directors will have the authority, without further action by the stockholders, to issue from time to time up to undesignated shares of preferred stock in one or more series and to fix the number of shares, designations, preferences, powers, and relative, participating, optional or other special rights and the qualifications or restrictions thereof. The preferences, powers, rights and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions, and purchase funds and other matters. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of

common stock, and may have the effect of delaying, deferring or preventing a change in control of our company.

Warrants

As of September 30, 2005, there were warrants outstanding to purchase 75,000 shares of common stock, at a weighed average exercise price of \$2.00. The warrants expire in 2011 and 2012.

Registration Rights

Pursuant to the registration rights agreement dated September 3, 2004, after this offering, the holders of 3,262,643 shares of common stock to be converted from our Series C preferred stock will have rights to require us to register for public resale under the Securities Act their converted shares of common stock. This "demand" registration right is available six months after our initial public offering and must be demanded by holders of at least 20% of then outstanding as converted shares of common stock. Once registration is requested, all other holders of registrable shares may join in the registration statement, provided that if demand registration is an underwritten offering and the managing underwriters advise in writing that the number of converted shares of common stock to be included in the registration exceeds the number which can be sold in such offering, the number of shares that may be included in the offering may be limited by a formula set forth in the rights agreement. This demand registration right is subject to certain restrictions, including our ability to defer registration in certain cases and restrictions in lock-up agreements that such stockholders have signed in connection with this offering. The number of the demand registrations is limited to two; provided, however, that the registration statements covering an aggregate of at least 75% of the outstanding registrable shares have become effective. In addition, in the event that we become eligible to register securities by means of a registration statement on Form S-3 under the Securities Act, any holder of converted shares of common stock may require us to register the sale of registrable shares provided that the reasonably anticipated aggregate price to the public of such securities is at least \$1 million. We are obligated to effect unlimited registrations on Form S-3.

In connection with any of the registrations described above, we will indemnify the selling stockholders in such transactions and bear all registration fees, costs, and expenses except for transfer taxes and underwriting discounts or commissions applicable to the sale of the converted shares of common stock. Subject to limitations provided in the agreement, holders of registrable shares will also have rights to require us to register their shares when we are registering shares for sale on our own behalf or for sale by another shareholder.

Anti-Takeover Effects of Provisions of our Certificate of Incorporation and Bylaws and Delaware Law

Some provisions of Delaware law and our certificate of incorporation and bylaws contain provisions that could make the following transactions more difficult: (1) acquisition of us by means of a tender offer; (2) acquisition of us by means of a proxy contest or otherwise; or (3) removal of our incumbent officers and directors. These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions also serve to discourage hostile takeover practices and inadequate takeover bids. We believe that these provisions are beneficial because the negotiation they encourage could result in improved terms of any unsolicited proposal.

Undesignated Preferred Stock. Our board of directors has the ability to authorize undesignated preferred stock, which allows the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any unsolicited attempt to change control of our

company. This ability may have the effect of deferring hostile takeovers or delaying changes in control or management of our company.

Stockholder Meetings. Our bylaws provide that a special meeting of stockholders may be called only by our President, our Chief Executive Officer or by a resolution adopted by a majority of our board of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

Elimination of Stockholder Action by Written Consent. Our certificate of incorporation eliminates the right of stockholders to act by written consent without a meeting.

Election and Removal of Directors. Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. Once elected, directors may be removed only for cause and only by the affirmative vote of at least 66²/₃% of our outstanding common stock. For more information on the classified board, see the section entitled "Management—Board of Directors." This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us because it generally makes it more difficult for stockholders to replace a majority of the directors.

Delaware Anti-Takeover Statute. We are subject to Section 203 of the Delaware General Corporation Law which prohibits persons deemed "interested stockholders" from engaging in a "business combination" with a Delaware corporation for three years following the date these persons become interested stockholders. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation's voting stock. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors.

Amendment of Certain Provisions in Our Organizational Documents. The amendment of any of the above provisions would require approval by holders of at least 66²/₃% of our then outstanding common stock.

The provisions of Delaware law and our certificate of incorporation and bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. Such provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

Limitations of Liability and Indemnification Matters

We have adopted provisions in our certificate of incorporation that limit the liability of our directors for monetary damages for breach of their fiduciary duties, except for liability that cannot be eliminated under the Delaware General Corporation Law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as

directors, except liability for any of the following: (i) any breach of their duty of loyalty to the corporation or the stockholders; (ii) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or (iv) any transaction from which the director derived an improper personal benefit. This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our bylaws also provide that we will indemnify our directors and executive officers and we may indemnify our other officers and employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether our bylaws would permit indemnification. We have entered into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our charter documents. These agreements among other things, will provide for indemnification of our directors and executive officers for expenses, judgments, fines and settlement amounts incurred by any such person in any action or proceeding arising out of such person's services as a director or executive officer or at our request.

Transfer Agent And Registrar

The transfer agent and registrar for the common stock is _____ .

SHARES ELIGIBLE FOR FUTURE SALES

Prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock.

Upon the completion of this offering, we will have _____ shares of common stock outstanding. Of these shares, _____ shares of our common stock to be sold in this offering, plus any shares issued upon exercise of the underwriters' over-allotment option, will be freely tradable without restriction or further registration under the Securities Act, except for any such shares which may be held or acquired by our affiliates, as that term is defined in Rule 144 promulgated under the Securities Act, which shares will be subject to the volume limitations and other restrictions of Rule 144 described below.

Sales of Restricted Shares

An aggregate _____ shares of our common stock held by our existing stockholders upon completion of this offering will be restricted securities, as that phrase is defined in Rule 144, and may not be resold in the absence of registration under the Securities Act or pursuant to an exemption from such registration, including among others, the exemptions provided by Rules 144, 144(k) or 701 under the Securities Act, which rules are summarized below. Taking into account the lock-up agreements described below and the provisions of Rules 144, 144(k) and 701, additional shares will be available for sale in the public market as follows:

- _____ shares will be available for immediate sale on the date of the final prospectus;
- _____ shares will be available for sale 90 days after the date of the final prospectus pursuant to Rule 144; and
- _____ shares will be available for sale 180 days after the date of the final prospectus, the expiration date for the lock-up agreements, pursuant to Rules 144 and 144(k).

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of the final prospectus, a person or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year, including persons who may be deemed to be our "affiliates," would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1.0% of the number of shares of common stock then outstanding, which will equal approximately _____ shares immediately after this offering; or
- the average weekly trading volume of our common stock on The Nasdaq National Market during the four calendar weeks before a notice of the sale on Form 144 is filed.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of certain public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell these shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701

Securities issued in reliance on Rule 701, such as shares of common stock acquired upon exercise of options granted under our stock plans, are also restricted and, beginning 90 days after the date of the final prospectus, may be sold by stockholders other than our affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one-year holding period requirement.

Options and Warrants

We intend to file registration statements on Form S-8 under the Securities Act to register approximately _____ shares of common stock issuable under our stock plans. These registration statements are expected to be filed following the effective date of the registration statement of which this prospectus is a part and will be effective upon filing. Shares issued upon the exercise of stock options after the effective date of the Form S-8 registration statements will be eligible for resale in the public market without restriction, subject to Rule 144 limitations applicable to affiliates.

Upon completion of this offering, there will be warrants outstanding to purchase 75,000 shares of common stock at a weighted average exercise price of \$2.00 per share. These warrants can be exercised at any time. Any shares purchased pursuant to the cashless exercise feature of outstanding warrants may be sold approximately 90 days after completion of this offering, subject to the requirements of Rule 144.

Lock-up Agreements

Notwithstanding the foregoing, we and our directors, officers and our stockholders representing substantially all of our shares have agreed with the underwriters, subject to limited exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the 180-day period after the date of this prospectus, subject to extensions in certain cases, without the prior written consent of Friedman, Billings, Ramsey & Co., Inc. and RBC Capital Markets.

Registration Rights

Pursuant to the registration rights agreement dated September 3, 2004, after this offering, the holders of 3,262,643 shares of common stock to be converted from our Series C preferred stock will have rights to require us to register for public resale under the Securities Act their converted shares of common stock. This "demand" registration right is available six months after our initial public offering and must be demanded by holders of at least 20% of then outstanding as converted shares of common stock. Once registration is requested, all other holders of registrable shares may join in the registration statement, provided that if demand registration is an underwritten offering and the managing underwriters advise in writing that the number of converted shares of common stock to be included in the registration exceeds the number which can be sold in such offering, the number of shares that may be included in the offering may be limited by a formula set forth in the rights agreement. This demand registration right is subject to certain restrictions, including our ability to defer registration in certain cases and restrictions in lock-up agreements that such stockholders have signed in connection with this offering. The number of the demand registrations is limited to two; provided, however, that the registration statements covering an aggregate of at least 75% of the outstanding registrable shares have become effective. In addition, in the event that we become eligible to register securities by means of a registration statement on Form S-3 under the Securities Act, any holder of converted shares of common stock may require us to register the sale of registrable shares provided that the reasonably

anticipated aggregate price to the public of such securities is at least \$1 million. We are obligated to effect unlimited registrations on Form S-3.

In connection with any of the registrations described above, we will indemnify the selling stockholders in such transactions and bear all registration fees, costs, and expenses except for transfer taxes and underwriting discounts or commissions applicable to the sale of the converted shares of common stock. Subject to limitations provided in the agreement, holders of registrable shares will also have rights to require us to register their shares when we are registering shares for sale on our own behalf or for sale by another shareholder.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS
FOR NON-U.S. HOLDERS OF COMMON STOCK**

The following is a summary of certain U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of shares of our common stock purchased pursuant to this offering by a holder that, for U.S. federal income tax purposes, is not a "U.S. person," as we define that term below. A beneficial owner of our common stock who is not a U.S. person is referred to below as a "non-U.S. holder." This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, Treasury regulations promulgated thereunder, judicial opinions, administrative pronouncements and published rulings of the U.S. Internal Revenue Service (or the IRS), all as in effect as of the date hereof. These authorities may be changed, possibly retroactively, resulting in U.S. federal tax consequences different from those set forth below. We have not sought, and will not seek, any ruling from the IRS or opinion of counsel with respect to the statements made in the following summary, and there can be no complete assurance that the IRS will not take a position contrary to such statements or that any such contrary position taken by the IRS would not be sustained.

This summary is limited to non-U.S. holders who purchase shares of our common stock issued pursuant to this offering and who hold our common stock as a capital asset (generally, property held for investment). This summary also does not address the tax considerations arising under the laws of any state, local or non-U.S. jurisdiction, or under United States federal estate or gift tax laws (except as specifically described below). In addition, this summary does not address tax considerations that may be applicable to an investor's particular circumstances nor does it address the special tax rules applicable to special classes of non-U.S. holders, including, without limitation:

- banks, insurance companies or other financial institutions;
- partnerships or other entities treated as partnerships for U.S. federal income tax purposes;
- U.S. expatriates;
- tax-exempt organizations;
- tax-qualified retirement plans;
- brokers or dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; or
- persons that will hold common stock as a position in a hedging transaction, "straddle" or "conversion transaction" for tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a holder, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership, and partners in such partnership, should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of shares of our common stock.

For purposes of this discussion, a U.S. person means a person who is for U.S. federal income tax purposes:

- a citizen or resident of the U.S.;
- a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) or partnership (including any entity treated as a partnership for U.S. federal income

tax purposes) created or organized under the laws of the U.S., any state within the U.S., or the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if its administration is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all of its substantial decisions, or other trusts considered U.S. persons for U.S. federal income tax purposes.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE UNITED STATES FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Dividends

If distributions are paid on shares of our common stock, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent a distribution exceeds our current and accumulated earnings and profits, it will constitute a return of capital that is applied against and reduces, but not below zero, the adjusted tax basis of your shares in our common stock. Any remainder will constitute gain on the common stock. Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at the rate of 30% or such lower rate as may be specified by an applicable income tax treaty. If the dividend is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. or, if a tax treaty applies, attributable to a U.S. permanent establishment maintained by such non-U.S. holder, the dividend will not be subject to any withholding tax (provided certain certification requirements are met, as described below) but will be subject to U.S. federal income tax imposed on net income on the same basis that applies to U.S. persons generally. A corporate holder under certain circumstances also may be subject to a branch profits tax equal to 30% (or such lower rate as may be specified by an applicable income tax treaty) of a portion of its effectively connected earnings and profits for the taxable year.

In order to claim the benefit of a tax treaty or to claim exemption from withholding because the income is effectively connected with the conduct of a trade or business in the U.S., a non-U.S. holder must provide a properly executed IRS Form W-8BEN for treaty benefits or W-8ECI for effectively connected income (or such successor forms as the IRS designates), prior to the payment of dividends. These forms must be periodically updated. Non-U.S. holders may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund.

Gain on Disposition

A non-U.S. holder generally will not be subject to U.S. federal income tax, including by way of withholding, on gain recognized on a sale or other disposition of shares of our common stock unless any one of the following is true:

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. or, if a tax treaty applies, attributable to a U.S. permanent establishment or a fixed base maintained by such non-U.S. holder;
- the non-U.S. holder is a nonresident alien individual present in the U.S. for 183 days or more in the taxable year of the disposition and certain other requirements are met; or

- our common stock constitutes a United States real property interest by reason of our status as a "United States real property holding corporation" (a "USRPHC") for U.S. federal income tax purposes at any time during the shorter of (i) the period during which you hold our common stock or (ii) the 5-year period ending on the date you dispose of our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our United States real property interests relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. As long as our common stock is regularly traded on an established securities market, however, it will not be treated as a United States real property interest, in general, with respect to any non-U.S. holder that holds no more than five percent of such regularly traded common stock. If we are determined to be a USRPHC and the foregoing exception does not apply, then a purchaser may be required to withhold 10% of the proceeds payable to a non-U.S. holder from a disposition of our common stock and the non-U.S. holder generally will be taxed on its net gain derived from the disposition at the graduated U.S. federal income tax rates applicable to U.S. persons.

Unless an applicable treaty provides otherwise, gain described in the first bullet point above will be subject to the U.S. federal income tax imposed on net income on the same basis that applies to U.S. persons generally but will generally not be subject to withholding. Corporate holders also may be subject to a branch profits tax on such gain. Gain described in the second bullet point above will be subject to a flat 30% U.S. federal income tax, which may be offset by U.S. source capital losses. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.

U.S. Federal Estate Taxes

Shares of our common stock owned or treated as owned by an individual who at the time of death is a non-U.S. holder are considered U.S. situs assets and will be included in his or her estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

Under U.S. Treasury regulations, we must report annually to the IRS and to each non-U.S. holder the gross amount of distributions on our common stock paid to such non-U.S. holder and the tax withheld with respect to those distributions. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced or eliminated by an applicable tax treaty. Pursuant to an applicable tax treaty, that information may also be made available to the tax authorities in the country in which the non-U.S. holder resides.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder of our common stock if the holder has provided the required certification that it is not a U.S. person or certain other requirements are met. Dividends paid to a non-U.S. holder who fails to certify status as a U.S. person in accordance with the applicable U.S. Treasury regulations generally will be subject to backup withholding at the applicable rate, currently 28%. Dividends paid to non-U.S. holders subject to the 30% withholding tax described above in "Dividends," generally will be exempt from backup withholding.

Payments of the proceeds from a disposition or a redemption effected outside the U.S. by a non-U.S. holder of our common stock made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections

with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established.

Payment of the proceeds from a disposition by a non-U.S. holder of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the non-U.S. holder's U.S. federal income tax liability if certain required information is furnished to the IRS. Non-U.S. holders should consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

UNDERWRITING

Friedman, Billings, Ramsey & Co., Inc., and RBC Capital Markets Corporation are acting as representatives of the underwriters named below. Subject to the terms and conditions in the underwriting agreement, each underwriter named below has agreed to purchase from us and the selling stockholders, on a firm commitment basis, the respective number of shares of common stock shown opposite its name below:

Underwriters	Number of Shares
Friedman, Billings, Ramsey & Co., Inc.	
RBC Capital Markets Corporation	
CIBC World Markets Corp.	
Pacific Crest Securities Inc.	
Total	

The underwriting agreement provides that the underwriters' obligations to purchase our common stock are subject to approval of legal matters by counsel and the satisfaction of other conditions. These conditions include, among others, the continued accuracy of representations and warranties made by us in the underwriting agreement, delivery of legal opinions from our counsel and counsel for the selling stockholders, and the absence of material adverse changes in our assets, business or prospects after the date of this prospectus. The underwriters are obligated to purchase all of the shares (other than those covered by the over-allotment option described below) if they purchase any shares.

The representatives have advised us that the underwriters propose to offer the common stock directly to the public at the public offering price presented on the cover page of this prospectus and to selected dealers, who may include the underwriters, at the public offering price less a selling concession not in excess of \$ _____ per share. The underwriters may allow, and the selected dealers may reallow, a concession not in excess of \$ _____ per share to brokers and dealers. After the offering, the underwriters may change the offering price and other selling terms. The underwriters have informed us that they do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The following table summarizes the underwriting discounts and commissions that we and the selling stockholders will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Per Share	Total	
		Without Over-allotment	With Over-allotment
Public offering price	\$	\$	\$
Underwriting discount paid by us			
Underwriting discount paid by selling stockholders			

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately \$ _____ million.

We and certain of the selling stockholders have granted to the underwriters an option to purchase up to an aggregate of _____ shares of common stock (_____ from us and _____ from certain of the selling stockholders), exercisable solely to cover over-allotments, if any, at the public offering

price less the underwriting discounts and commissions shown on the cover page of this prospectus. The underwriters may exercise this option in whole or in part at any time until 30 days after the date of the underwriting agreement. To the extent the underwriters exercise this option, each underwriter will be committed, so long as the conditions of the underwriting agreement are satisfied, to purchase a number of additional shares proportionate to that underwriter's initial commitment as indicated in the preceding table. If this option is not exercised in full, the amount of shares as to which it is exercised will be apportioned among us and each selling stockholder on a pro rata basis.

We and our officers, directors and our stockholders representing substantially all of our shares have agreed not to, with certain limited exceptions, directly or indirectly, offer to sell, contract to sell, or otherwise sell, pledge, dispose of or hedge any common stock or any securities convertible into or exchangeable for shares of common stock for a period of 180 days from the date of this prospectus, except with the prior written consent of the representatives.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be negotiated between the representatives and us. In determining the initial public offering price of our common stock, the representatives will consider:

- prevailing market conditions;
- our historical performance and capital structure;
- estimates of our business potential and earnings prospects;
- an overall assessment of our management; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

We have applied to have our common stock approved for quotation on the Nasdaq National Market under the symbol "LQDT."

We and the selling stockholders have agreed to indemnify the underwriters against liabilities relating to the offering, including liabilities under the Securities Act and liabilities arising from breaches of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

The representatives may engage in over-allotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment transactions involve sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. The representatives will allocate shares of common stock to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares of common stock may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

LEGAL MATTERS

The validity of the issuance of the shares of common stock offered by this prospectus will be passed upon for us by our counsel, Hogan & Hartson L.L.P. Hogan & Hartson L.L.P. and two of its partners beneficially own 31,173, 6,234 and 6,234 shares, respectively, of our common stock. Certain legal matters relating to the offering will be passed upon for the underwriters by King & Spalding LLP.

EXPERTS

Our consolidated financial statements at September 30, 2004 and 2005 and for each of the three years in the period ended September 30, 2005 appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the offering of common stock. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the shares of our common stock, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. We are not currently subject to the informational requirements of the Exchange Act. As a result of the offering of the shares of common stock, we will become subject to the informational requirements of the Exchange Act, and, in accordance therewith, will file reports and other information with the SEC. The registration statement, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at 100 F Street, NE, Washington, DC 20549. Copies of such materials, including copies of all or any portion of the registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (<http://www.sec.gov>).

Liquidity Services, Inc. and Subsidiaries

Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Liquidity Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Liquidity Services, Inc. and Subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Liquidity Services, Inc. and Subsidiaries at September 30, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2005, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

McLean, Virginia
November 7, 2005

Liquidity Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30,	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,377,720	\$ 5,509,800
Short-term investments	—	6,668,405
Accounts receivable, net of allowance for doubtful accounts of \$50,000 and \$84,020 in 2005 and 2004, respectively	685,107	1,939,310
Inventory	1,933,755	866,110
Prepaid expenses and other current assets	1,588,144	553,929
Total current assets	14,584,726	15,537,554
Property and equipment, net	1,000,043	1,051,967
Intangible assets, net	5,744,718	—
Goodwill	3,605,990	—
Other assets	1,077,422	1,121,483
Total assets	\$ 26,012,899	\$ 17,711,004
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 923,731	\$ 991,536
Accrued expenses and other	3,336,560	2,835,408
Profit-sharing distributions payable	4,336,556	3,485,481
Consignment payables	1,281,083	800,458
Current portion of capital lease obligations	143,909	120,031
Current portion of long-term debt	409,016	283,658
Total current liabilities	10,430,855	8,516,572
Capital lease obligations, net of current portion	43,770	158,803
Long-term debt, net of current portion	3,905,926	1,594,491
Other long-term liabilities	689,699	387,200
Total liabilities	15,070,250	10,657,066
Stockholders' equity:		
Series C Preferred Stock, \$20,000,000 liquidation preference; \$.001 par value; 3,262,643 shares authorized, issued and outstanding	3,263	3,263
Common stock, \$0.001 par value; 26,737,357 shares authorized; 19,025,971 and 19,026,309 shares issued and outstanding at September 30, 2005 and 2004, respectively	19,026	19,026
Additional paid-in capital	9,411,905	9,621,332
Accumulated other comprehensive loss	(24,324)	—
Retained earnings (accumulated deficit)	1,532,779	(2,589,683)
Total stockholders' equity	10,942,649	7,053,938
Total liabilities and stockholders' equity	\$ 26,012,899	\$ 17,711,004

See accompanying notes to the consolidated financial statements.

Liquidity Services, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year ended September 30,		
	2005	2004	2003
Revenue	\$ 89,415,215	\$ 75,868,503	\$ 60,719,052
Costs and expenses:			
Cost of goods sold (excluding amortization)	5,614,070	4,710,318	5,089,797
Profit-sharing distributions	48,951,641	39,717,648	30,427,205
Technology and operations	15,369,306	14,168,490	10,490,303
Sales and marketing	5,503,552	4,264,779	3,056,779
General and administrative	7,396,737	6,046,345	5,809,485
Amortization of contract intangibles	135,562	—	1,862,000
Depreciation and amortization	585,802	530,514	465,260
Total costs and expenses	83,556,670	69,438,094	57,200,829
Income from operations	5,858,545	6,430,409	3,518,223
Interest expense and other income, net	(570,359)	(621,141)	(391,554)
Income before provision for income taxes	5,288,186	5,809,268	3,126,669
Provision for income taxes	(1,165,724)	(540,721)	(351,000)
Net income	\$ 4,122,462	\$ 5,268,547	\$ 2,775,669
Basic earnings per common share	\$ 0.22	\$ 0.31	\$ 0.19
Diluted earnings per common share	\$ 0.18	\$ 0.30	\$ 0.17
Basic weighted average shares outstanding	19,036,373	16,865,313	14,428,121
Diluted weighted average shares outstanding	22,570,939	17,597,391	15,930,840

See accompanying notes to the consolidated financial statements.

Liquidity Services, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount				
Balance at September 30, 2002	1,461,549	1,462	12,435,000	12,435	11,185,485	—	(10,448,499)	750,883
Exercise of common stock options	—	—	3,572,933	3,573	175,073	—	—	178,646
Issuance of warrants	—	—	—	—	26,000	—	—	26,000
Net income	—	—	—	—	—	—	2,775,669	2,775,669
Balance at September 30, 2003	1,461,549	1,462	16,007,933	16,008	11,386,558	—	(7,672,830)	3,731,198
Repurchase and retirement of Series A Preferred stock	(1,132,806)	(1,133)	—	—	(1,593,600)	—	—	(1,594,733)
Conversion of Series A Preferred Stock to Common	(48,193)	(48)	49,873	50	(2)	—	—	—
Repurchase and retirement of Series B Preferred stock	(249,377)	(250)	—	—	(249,127)	—	—	(249,377)
Conversion of Series B Preferred Stock to Common	(31,173)	(31)	31,173	31	—	—	—	—
Compensation expense from grant of common stock options	—	—	—	—	85,010	—	—	85,010
Net proceeds of issuance of Series C Preferred Stock	3,262,643	3,263	—	—	19,718,024	—	—	19,721,287
Capital distributions paid	—	—	—	—	(20,000,000)	—	—	(20,000,000)
Exercise of common stock options	—	—	2,327,771	2,328	200,069	—	—	202,397
Exercise of common stock warrants	—	—	609,559	609	74,400	—	—	75,009
Net income	—	—	—	—	—	—	5,268,547	5,268,547
Minority interest dividend Payable	—	—	—	—	—	—	(185,400)	(185,400)
Balance at September 30, 2004	3,262,643	\$ 3,263	19,026,309	\$ 19,026	\$ 9,621,332	—	\$ (2,589,683)	\$ 7,053,938
Exercise of common stock options	—	—	240,568	241	184,741	—	—	184,982
Repurchase of common stock	—	—	(240,906)	(241)	(481,571)	—	—	(481,812)
Compensation expense from grant of common stock options	—	—	—	—	87,403	—	—	87,403
Comprehensive Income:								
Net Income	—	—	—	—	—	—	4,122,462	4,122,462
Foreign currency translation	—	—	—	—	—	(24,324)	—	(24,324)
Total comprehensive income	—	—	—	—	—	—	—	4,098,138
Balance at September 30, 2005	3,262,643	\$ 3,263	19,025,971	\$ 19,026	\$ 9,411,905	\$ (24,324)	\$ 1,532,779	\$ 10,942,649

See accompanying notes to the consolidated financial statements.

Liquidity Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended September 30,		
	2005	2004	2003
Operating activities			
Net income	\$ 4,122,462	\$ 5,268,547	\$ 2,775,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	721,364	530,514	2,327,260
Amortization of debt discount	43,967	38,898	267,726
Interest expense related to put warrant liability and debt issue costs	285,437	200,470	32,230
Stock compensation expense	87,403	85,010	—
Provision (benefit) for doubtful accounts	(34,020)	2,473	(20,010)
Deferred tax benefit	(701,181)	—	—
(Loss) gain on sale of short-term investments	(75,162)	(21,752)	2,833
Loss on disposal of property and equipment	13,520	30,511	21,360
Changes in operating assets and liabilities:			
Accounts receivable	1,288,223	(1,765,774)	128,411
Inventory	(1,067,645)	(64,353)	102,985
Prepaid expenses and other assets	(322,142)	(297,402)	(138,856)
Accounts payable	(67,805)	344,252	(813,567)
Accrued expenses and other	501,152	460,543	720,182
Profit-sharing distributions payable	851,075	727,917	479,061
Consignment payables	480,626	70,034	195,775
Other long-term liabilities	17,062	(17,399)	23,197
Net cash provided by operating activities	6,144,336	5,592,489	6,104,256
Investing activities			
Purchases of short-term investments	(28,696,790)	(42,017,057)	(15,808,619)
Proceeds from the sale of short-term investments	35,440,357	39,459,270	12,316,486
Proceeds from the sale of property and equipment	—	10,372	—
Cash paid for contract intangible	(5,693,613)	—	—
Cash paid for acquisitions	(3,805,990)	—	—
Purchases of property and equipment	(487,533)	(420,110)	(227,302)
Net cash used in investing activities	(3,243,569)	(2,967,525)	(3,719,435)
Financing activities			
Proceeds from issuance of debt	2,400,000	—	2,000,000
Repayments of debt	(7,174)	(1,371,945)	(3,208,441)
Principal repayments of capital lease obligations	(115,025)	(73,224)	(48,214)
Proceeds from exercise of common stock options	184,982	277,406	178,646
Payments to repurchase common stock	(481,812)	—	—
Net proceeds from the issuance of preferred stock	—	19,721,287	—
Payments to repurchase preferred stock	—	(1,844,110)	—
Dividends and capital distributions	—	(20,185,400)	—
Net cash provided by (used in) financing activities	1,980,971	(3,475,986)	(1,078,009)
Effect of exchange rate differences on cash and cash equivalents	(13,818)	—	—
Net increase (decrease) in cash and cash equivalents	4,867,920	(851,022)	1,306,812
Cash and cash equivalents at beginning of year	5,509,800	6,360,822	5,054,010
Cash and cash equivalents at end of year	\$ 10,377,720	\$ 5,509,800	\$ 6,360,822
Supplemental disclosure of cash flow information			
Property and equipment acquired through capital leases	\$ 23,870	\$ 293,470	—
Cash paid for income taxes	1,811,993	747,393	15,418
Cash paid for interest	\$ 298,255	\$ 263,302	\$ 146,344

See accompanying notes to the consolidated financial statements.

1. Organization

Liquidity Services, Inc. and Subsidiaries (LSI or the Company) is a leading online auction marketplace for wholesale, surplus and salvage assets. LSI enables buyers and sellers to transact in an efficient, automated online auction environment offering over 500 product categories. The Company's marketplaces provide professional buyers access to a global, organized supply of wholesale, surplus and salvage assets presented with digital images and other relevant product information. Additionally, LSI enables its corporate and government sellers to enhance their financial return on excess assets by providing a liquid marketplace and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. LSI organizes its products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, and specialty equipment. The Company's online auction marketplaces are www.liquidation.com, www.govliquidation.com and www.uksurplus.com. LSI also operates a wholesale industry portal, www.goWholesale.com, that connects advertisers with buyers seeking products for resale and related business services.

The Company has four wholly owned subsidiaries—Surplus Acquisition Venture, LLC; Government Liquidation.com, LLC; Liquidity Services Limited (based in Corsham, England); and DOD Surplus, LLC. Surplus Acquisition Venture, LLC (SAV) was formed on October 13, 2000. On February 27, 2001, SAV formed Government Liquidation.com, LLC (GL) as a limited liability company in the state of Delaware. GL is a single-purpose entity that remarkets surplus government property under the auspices of the Commercial Venture II contract 99-0001-0002 (the Surplus Contract) with the Defense Reutilization and Marketing Service (DRMS). Under the terms of the contract, GL is limited to conducting business of the Surplus Contract and no other. The Company formed a United Kingdom (UK) subsidiary, Liquidity Services Limited (LSL), on July 23, 2003 to enter the European marketplace. LSL conducts business under the trade name "UKSurplus" and serves commercial entities and the UK Disposal Services Agency (DSA) responsible for the disposal of UK Ministry of Defense (MOD) surplus property, and the Defense Logistics Organization (DLO) through a five year contract beginning August 4, 2003.

On July 20, 2005, LSI formed DOD Surplus, LLC (DODS) as a limited liability company in the state of Delaware. DODS is a single-purpose entity that remarkets scrap government property under the auspices of the DoD Scrap contract 99-4001-0004 (the Scrap Contract) with the DRMS through June 2012. Under the terms of the contract, DODS is limited to conducting business of the Scrap Contract and no other. See Note 4.

The Company's operations are subject to certain risks and uncertainties associated with technology-oriented companies including, but not limited to, the Company's dependence on use of the Internet for operations, the effect of general business and economic trends, its susceptibility to rapid technological change, actual and potential competition by entities with greater financial resources, and the potential for the U.S. Government agencies from which the Company has derived a significant portion of its inventory to change the way they conduct their surplus disposition or to otherwise not renew their contracts with the Company.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid securities purchased with an initial maturity of three months or less to be cash equivalents.

Short-Term Investments

The Company accounted for its investments it held as of September 30, 2004 in accordance with Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These investments were all classified as available-for-sale securities. During fiscal 2005, these investments were fully liquidated.

Available-for-sale securities are stated at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income. In fiscal 2004 and 2003, the amounts of unrealized gains and losses were not material. Realized gains and losses and declines in fair value that are determined to be other-than-temporary on available-for-sale securities are included in interest expense and other income, net. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest expense and other income, net.

Inventory

Inventory consists of property obtained for resale, generally through the online auction process, and is stated at the lower of cost or market. Cost is determined using the specific identification method. Periodically, inventories are analyzed for obsolescence. Charges for obsolete inventory are included in cost of goods sold in the period in which they have been determined to occur.

Property and Equipment

Property and equipment is recorded at cost, and depreciated and amortized on a straight-line basis over the following estimated useful lives:

Computers and purchased software	One to five years
Office equipment	Three years
Furniture and fixtures	Five to seven years
Leasehold improvements	Shorter of lease term or useful life

Intangible Assets

Intangible assets consist of contract acquisition costs and covenants not to compete (see Note 4). Intangible assets are amortized using the straight-line method over their estimated useful lives, ranging from five to seven years.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets.

Goodwill

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill determined to have an indefinite useful life is no longer amortized, but is tested for impairment, at least annually or more frequently if indicators of impairment arise. If impairment of the carrying value based on the calculated fair value exists, the Company measures the impairment through the use of discounted cash flows.

Revenue Recognition

The Company recognizes revenue in accordance with the provisions of Staff Accounting Bulletin 104, *Revenue Recognition*, when all of the following criteria are met:

- a buyer submits the winning bid in an auction and, as a result, evidence of an arrangement exists and the sale price has been determined;
- title has passed to the buyer and the buyer has assumed the risks and rewards of ownership;
- for arrangements with an inspection period, the buyer has received the merchandise and has not notified LSI within that period that it is dissatisfied with the merchandise; and
- collection is reasonably assured.

Revenue is also evaluated in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, for reporting revenue of gross proceeds as the principal in the arrangement or net of commissions as an agent. In arrangements in which the Company is deemed to be the primary obligor and bears physical and general inventory risk, and credit risk, LSI recognizes as revenue the gross proceeds from the sale, including buyer's commissions. In arrangements in which the Company acts as an agent or broker on a consignment basis, without taking physical or general inventory risk, revenue is recognized based on the sales commissions that are paid to the Company by the sellers for utilizing LSI's services; in this situation, sales commissions represent a percentage of the gross proceeds from the sale that the seller pays to the Company upon completion of the transaction.

Cost of Goods Sold

Cost of goods sold includes the costs of purchasing and transporting property for auction as well as credit card transaction fees. The Company purchases the majority of its inventory at a fixed percentage

of the property's original acquisition cost. Title for the inventory passes to the Company at that point and the Company bears the risks and rewards of ownership. The Company does not have title to assets sold on behalf of its commercial or government customers when it receives only sales commission revenue and, as such, recognizes no cost of goods sold associated with those sales. Cost of goods sold also includes shipping and handling costs and amounts paid by customers for shipping and handling.

Significant Contracts

DRMS

Based on the sales price of the inventory, after reduction for allowable expenses and other disbursements under the Surplus Contract with DRMS, the Company is required to disburse to DRMS 78.2%, and to Kormendi/Gardener Partners (KGP), 1.8% of the profits. In addition, disbursements to DRMS/KGP are only required to the extent the Company has distributable cash surplus, as defined under the contract. This generally means that the Company is only required to disburse funds to the extent cash on hand at the Company's subsidiary, Government Liquidation, LLC, exceeds the sum of outstanding working capital advances, management's estimated accrued liabilities, contingent liabilities, and estimated operating expenses for the upcoming month. Profit-sharing distributions to DRMS/KGP under the Surplus Contract for the years ended September 30, 2005, 2004 and 2003 were \$47,446,296, \$38,684,726 and \$30,427,205 respectively, including accrued amounts, as of September 30, 2005 and 2004, of \$4,067,507 and \$3,339,571, respectively.

Under the terms of the Scrap Contract, the Company is required to disburse to DRMS approximately 80% of the profits realized from the ultimate sale of the inventory, after deduction for allowable expenses, calculated in a similar manner to that of the Surplus Contract. For the year ended September 30, 2005, profit-sharing distributions to the DRMS under the Scrap Contract amounted to \$139,983, all of which were payable at September 30, 2005.

DSA

Under the contract with the DSA, the Company is required to disburse to DSA a percentage that varies based on the total annual sales volume. Distributions to DSA for the years ended September 30, 2005, 2004 and 2003 were \$1,365,362, \$1,032,922 and \$0, respectively, including accrued amounts, as of September 30, 2005 and 2004, of \$129,066 and \$145,910, respectively.

Risk Associated with Certain Concentrations

The Company does not perform credit evaluations of its buyers. However, substantially all sales are recorded subsequent to payment authorization being received. As a result, the Company is not subject to significant collection risk, as goods are generally not shipped before payment is received.

For consignment sales transactions, funds are collected from buyers and are held by the Company on the sellers' behalf. The funds are included in cash and cash equivalents in the consolidated financial statements. The Company releases the funds to the seller, less the Company's commission and other fees due, after the buyer has accepted the goods or within 30 days, depending on the state where the buyer and seller conduct business. The amount of cash held on behalf of the sellers is recorded as consignment payables in the accompanying consolidated balance sheets.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable.

The Company deposits its cash with financial institutions that the Company considers to be of high credit quality.

For the years ended September 30, 2005, 2004 and 2003, no single buyer accounted for 10% or more of revenue.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. This statement requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and income tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which the taxes are expected to be paid or recovered. A valuation allowance is provided to reduce the deferred tax assets to a level that the Company believes will more likely than not be realized. The resulting net deferred tax asset reflects management's estimate of the amount that will be realized.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, allow companies to either expense the estimated fair value of stock options or continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, but disclose the pro forma effects on net income had the fair value of the options been expensed. The Company has elected to apply APB Opinion No. 25 in accounting for its stock compensation plans.

Pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The weighted-average fair value of options granted in 2005 and 2004 was \$0.39 and \$0.12 per share, respectively, using the minimum value option-pricing model. The fair values were determined with the following assumptions for 2005 and 2004: average risk-free interest rates were 3.90% and 4.25%, respectively; dividend yield of 0%; and an expected life of 4 years.

Had compensation expense been determined under the fair value method at the grant dates, the difference between the Company's net income and the Company's pro forma net income would have been insignificant.

Advertising Costs

Advertising expenditures are expensed as incurred. Advertising costs charged to expense were \$938,727, \$464,094 and \$316,602 for the years ended September 30, 2005, 2004 and 2003, respectively.

Notes to Consolidated Financial Statements—(Continued)

Fair Value of Financial Instruments

SFAS No. 107, *Disclosure About Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, profit-sharing distributions payable, consignment payables and long-term debt reported in the consolidated balance sheets approximate their fair values.

Foreign Currency Translation

The functional currency for LSL, the Company's foreign subsidiary, is the British pound. The translation of the subsidiary's financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The resulting translation adjustments are recognized in accumulated other comprehensive income, a separate component of stockholders' equity. Realized foreign currency transaction gains and losses are included in interest expense and other income, net in the consolidated statements of operations.

Comprehensive Income

Comprehensive income includes net income adjusted for foreign currency translation, and is reflected as a separate component of stockholders' equity.

Earnings per Share

Basic net income attributable to common stockholders per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income attributable to common stockholders per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following summarizes the potential outstanding common stock of the Company as of the end of each year:

	2005	2004	2003
Net income	\$ 4,122,462	\$ 5,268,547	\$ 2,775,669
Weighted average shares calculation:			
Basic weighted average shares outstanding	19,036,373	16,865,313	14,428,121
Treasury stock effect of options and warrants	271,923	39,458	—
Shares of common stock into which outstanding preferred stock is convertible	3,262,643	692,620	1,502,719
Diluted weighted average common shares outstanding	22,570,939	17,597,391	15,930,840
Net income per common share:			
Basic income per common share	\$ 0.22	\$ 0.31	\$ 0.19
Diluted income per common share	\$ 0.18	\$ 0.30	\$ 0.17

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or Statement 123(R), which is a revision of SFAS No. 123. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values. Pro forma disclosure is no longer an alternative.

The Company adopted the provisions of Statement 123(R) on October 1, 2005, using the prospective method. Unvested stock-based awards issued prior to October 1, 2005 and disclosed in the accompanying September 30, 2005 consolidated financial statements using the minimum value method (rather than the estimated fair value using the Black-Scholes option pricing model) will be accounted for at the date of adoption using the intrinsic value method originally applied to those awards.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using the intrinsic value method and, as such, recognizes no compensation cost when employee stock options are granted with exercise prices equal to the fair value of the shares on the date of grant. Accordingly, the adoption of Statement 123(R)'s fair value method may have a significant impact on the Company's results of operations, although it will have no impact on its overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend entirely on levels of share-based payments granted in the future.

3. DRMS Contracts

The Company's Surplus Contract in place with DRMS expires as of July 2008. Under the terms of the Surplus Contract, the Company acquires surplus government property from DRMS at a fixed percentage of the property's original estimated acquisition value. The Company is required to purchase all surplus government property referred to it by DRMS. The Company then markets the property through its buyer network. Under the terms of the contract, the Company distributes to DRMS a fixed percentage of the profits realized from the ultimate sale of the inventory, after deduction for allowable expenses and profit-sharing distributions, as provided for under the terms of the contract.

As a result of this contract, the Company is the sole remarketer of all U.S. Department of Defense surplus turned into DRMS available for sale within the United States, Puerto Rico, and Guam.

The contract may be terminated by either the Company or DRMS if the rate of return performance ratio does not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. The Company has performed in excess of the benchmark ratios throughout the contract period through September 30, 2005.

The Company's Scrap Contract in place with DRMS expires as of June 2012. Under the terms of the Scrap Contract, the Company is required to purchase all scrap government property referred to it by DRMS. As a result of this contract, the Company is the sole remarketer of all U.S. Department of Defense scrap turned into DRMS available for sale within the United States, Puerto Rico, and Guam.

4. Acquisitions

Wholesale411

On May 24, 2005, the Company acquired substantially all of the assets of Aldnet Media Group, LLC (Wholesale411), a wholesale industry search portal for the wholesale industry. The operating results of Wholesale411 have been included in the accompanying consolidated financial statements from the date of acquisition. The purchase consideration consisted of \$2,900,000 of cash paid to the seller and transaction costs of \$61,243, which was allocated to identifiable intangible assets acquired and goodwill. Of the purchase consideration, \$200,000 was allocated to an amortizable intangible related to a covenant not to compete. This amount is being amortized on a straight-line basis over five years, the life of that agreement. The remaining \$2,761,243 of the purchase consideration was allocated to goodwill. Subsequent to the acquisition, the Company paid an additional \$100,000 in payments to the sellers upon the resolution of certain contingencies; this additional amount was also recorded to goodwill. There is a potential additional \$100,000 payment to the seller due no later than June 2006 based on certain contingencies; this amount has not been recorded at September 30, 2005.

Because the Wholesale411 results of operations for the period from October 1, 2004 to May 24, 2005 were not material, the pro forma combined results of operations for the year ended September 30, 2005 are not presented. These pro forma combined results of operations would not differ materially from the historical results of operations.

Scrap Contract

In conjunction with the Company's June 2005 winning bid for the Scrap Contract, LSI was required to pay DRMS \$5,693,613 for the right to manage the operations and remarket scrap material and the resulting cash flows associated therewith. This payment was recorded as a contract intangible and is being amortized over the 84-month term of the contract on a straight-line basis. The Company recorded amortization expense of \$135,562 and \$0 for the years ended September 30, 2005 and 2004, respectively, related to the Scrap Contract intangible asset.

Minority Interest

On July 11, 2005, the Company acquired the outstanding minority interest in SAV for cash consideration of \$815,000. Of this amount, \$70,253 was paid to settle minority interest payable at the acquisition date. The remaining portion of the purchase consideration of \$744,747 was recorded as goodwill.

5. Short-Term Investments

Short-term investments consist of the following as of September 30, 2004:

	Cost and Fair Value
Available for sale securities:	
Commercial paper	\$ 2,514,913
Asset-backed securities	4,153,492
	<hr/>
	\$ 6,668,405
	<hr/>

6. Property and Equipment

Property and equipment, including equipment under capital lease obligations, consists of the following:

	September 30,	
	2005	2004
Computers and purchased software	\$ 2,006,396	\$ 2,140,196
Office equipment	174,371	201,545
Furniture and fixtures	238,277	230,209
Leasehold improvements	157,083	130,085
	<u>2,576,127</u>	<u>2,702,035</u>
Less: accumulated depreciation and amortization	(1,576,084)	(1,650,068)
	<u>\$ 1,000,043</u>	<u>\$ 1,051,967</u>

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2005, 2004 and 2003 was \$572,469, \$530,514 and \$465,260, respectively.

7. Intangible Assets

Intangible assets at September 30, 2005 consisted of the following:

	Useful life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract intangible	7	\$ 5,693,613	\$ (135,562)	\$ 5,558,051
Covenants not to compete	5	200,000	(13,333)	186,667
Total intangible assets, net				<u>\$ 5,744,718</u>

Future expected amortization of intangible assets at September 30, 2005 was as follows:

Years ending September 30,	
2006	\$ 853,373
2007	853,373
2008	853,373
2009	853,373
2010	840,040

8. Accrued Expenses and Other

Accrued expenses and other consists of the following:

	September 30,	
	2005	2004
Accrued compensation and benefits	\$ 1,994,954	\$ 1,499,700
Other accrued expenses	1,341,606	1,335,708
	<u>\$ 3,336,560</u>	<u>\$ 2,835,408</u>

9. Debt

Senior Credit Facility

In December 2002, the Company entered into a senior credit facility (the Agreement) with a bank. The Agreement provides for borrowings of up to \$250,000 under a line of credit. In July 2003, the Company's line of credit under the Agreement was increased to \$750,000. In June 2005, the Company's line of credit under the Agreement was increased to \$3,000,000. In July 2005, the Company's line of credit under the Agreement was increased to \$5,500,000. This senior credit facility will expire in July 2007.

Borrowings under the Agreement bear interest at an annual rate equal to the LIBOR rate plus 2.25% (5.875% at September 30, 2005) due monthly. As of September 30, 2005 and 2004, the Company had \$2,400,000 and \$0, respectively, outstanding borrowings under the Agreement.

Borrowings under the Agreement are secured by substantially all of the assets of the Company. The Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirements to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA). As of September 30, 2005, the Company was in compliance with these covenants.

Note Payable

On May 16, 2003, the Company received \$2 million in cash for a Subordinated Debenture (the Note Payable) payable to an unaffiliated third party. The note bears interest at the rate of 12% per annum. Borrowings under the Note Payable are secured by a junior lien on substantially all of the assets of the Company. The note is due in May 2008 and requires monthly payments beginning in May 2006.

As additional consideration, the Company issued fully vested warrants to purchase 517,094 shares of common stock of the Company. The aggregate exercise price of the warrants is \$10.00 and the warrants expire 10 years from the date of issuance. The warrants are redeemable based on a formula provided for in the agreement. At any time after the fifth anniversary of the closing of the notes and ending 10 years from the closing, the warrant holder may require the Company to redeem the warrants or the shares of stock underlying the warrant, at a price equal to the percentage of shares in the Company controlled by the warrant holder at the higher of the following values: (i) six times the preceding year's EBITDA; (ii) six times the average of the preceding two years' EBITDA; or (iii) the Company's appraised value as provided for by a mutually agreed upon investment banking appraisal firm. These warrants were converted into 517,094 shares of common stock in August 2004. The redemption rights on the common stock expire if the Company completes an Initial Public Offering.

The fair value of the warrants was determined to be \$26,000 in May 2003, using the Black-Scholes option pricing model. The redemption liability, based on the net present value of the amount determined by applying the above described formula, was determined to be \$474,000 and \$324,000 as of September 30, 2005 and 2004, respectively. The gross redemption liability, exclusive of any discount for the time value of money, was \$925,000 and \$791,000 as of September 30, 2005 and 2004, respectively. The fair value of the warrants and the fair value of the redemption liability are being amortized as additional interest expense over the life of the debenture. In addition, the accretion of the discount from the redemption liability's net present value to its gross redemption value results in additional

interest expense to the Company. For the years ended September 30, 2005 and 2004, the additional interest expense resulting from the accretion of the discount was approximately \$150,000 and \$115,000, respectively. To the extent the fair value of the redemption liability changes, based on the formula described above, through the date of redemption, the changes in fair value will result in increases or decreases in the amount of interest expense recognized by the Company. Those changes will be recognized in the period in which they occur, through the redemption date.

The Note Payable contains certain financial and non-financial restrictive covenants including, among others, the requirements to maintain a certain EBITDA ratio and EBITDA to interest expense ratio. As of September 30, 2005, the Company was in compliance with these covenants. If the Company fails to meet any of the covenants as described, the Company shall repay on demand all sums advanced, plus all reasonable expenses or costs incurred with interest.

Debt consisted of the following:

	September 30,	
	2005	2004
Note payable	\$ 2,000,000	\$ 2,000,000
Senior credit facility	2,400,000	—
Note payable—other	26,276	33,450
Less: unamortized debt discount	(111,334)	(155,301)
Subtotal	4,314,942	1,878,149
Less: current portion of long-term debt	(409,016)	(283,658)
Long-term portion debt	\$ 3,905,926	\$ 1,594,491

Future minimum debt payments, exclusive of the unamortized debt discount, as of September 30, 2005 are as follows:

Years ending September 30,	
2006	\$ 409,852
2007	3,369,853
2008	646,571
Total future minimum debt payments	\$ 4,426,276

10. Commitments

Leases

The Company leases certain office space and equipment under non-cancelable operating and capital lease agreements, which expire at various dates through 2013. Certain of the leases contain escalation clauses and provide for the pass-through of increases in operating expenses and real estate

taxes. Future minimum payments, inclusive of sublease income, under the leases as of September 30, 2005 are as follows:

Years ending September 30,	Operating	Capital
2006	\$ 1,442,972	\$ 153,219
2007	1,492,113	42,830
2008	1,439,542	2,018
2009	1,061,941	—
2010 and after	2,135,120	—
Total future minimum lease payments	\$ 7,571,688	198,067
Less: amount representing interest		10,388
Present value of net minimum lease payments		187,679
Less: current portion of capital lease obligations		143,909
Capital lease obligations, noncurrent		\$ 43,770

Amortization of fixed assets acquired through capital leases is included in depreciation and amortization expense.

Rent expense for the years ended September 30, 2005, 2004 and 2003 was \$1,556,149, \$1,227,462 and \$1,044,399 respectively. Sublease income recorded for the years ended September 30, 2005, 2004 and 2003 was \$238,472, \$243,157 and \$236,670, respectively.

Directors Agreements

Effective January 1, 2004 and June 1, 2004, the Company entered into advisory agreements with two independent directors of the Company which expire on December 31, 2006 and May 30, 2007, respectively. In addition to payments of \$1,000 for the preparation and attendance at each Company board meeting, the agreements provide the directors a put option on any vested shares in the Company held by the directors. The Company recognized the amount of the increase in the redemption liability, \$136,000 and \$38,000, as interest expense in the years ended September 30, 2005 and 2004, respectively.

11. 401(k) Benefit Plan

The Company has various retirement plans (the Plans), which are intended to be qualified plans under Section 401(k) of the Internal Revenue Code. The Plans are defined contribution plans, available to all eligible employees and allow participants to contribute up to the legal maximum of their eligible compensation, not to exceed the maximum tax-deferred amount allowed by the Internal Revenue Service. The Plans also allow the Company to make discretionary matching contributions. For the years ended September 30, 2005, 2004 and 2003, the Company contributed and recorded expense of approximately \$301,000, \$195,000 and \$137,000, respectively, to the Plans.

12. Income Taxes

The components of the provision for income taxes are as follows:

	Years ended September 30,		
	2005	2004	2003
Current tax provision:			
U.S. Federal	\$ 1,652,326	\$ —	\$ 70,218
State	214,579	540,721	280,782
	<u>1,866,905</u>	<u>540,721</u>	<u>351,000</u>
Deferred tax benefit:			
U.S. Federal	(356,931)	—	—
State	(344,250)	—	—
	<u>(701,181)</u>	<u>—</u>	<u>—</u>
Total provision	<u>\$ 1,165,724</u>	<u>\$ 540,721</u>	<u>\$ 351,000</u>

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	September 30,	
	2005	2004
Deferred tax assets (liabilities):		
Net operating losses—Federal	\$ —	\$ 12,958
Net operating losses—State	621,521	778,869
Net operating losses—Foreign	523,820	400,986
Accrued vacation and bonus	385,788	349,269
Allowance for doubtful accounts	18,980	33,003
Depreciation	—	(43,517)
Other	(79,552)	(76,420)
Net deferred tax assets before valuation allowance	\$ 1,470,557	\$ 1,455,148
Less: valuation allowance	(769,376)	(1,455,148)
Total deferred tax assets	\$ 701,181	\$ —

The reconciliation of the U.S. federal statutory rate to the effective rate is as follows:

	Years ended September 30,		
	2005	2004	2003
U.S. statutory rate	34.0%	34.0%	34.0%
Non-deductible foreign losses	2.4%	8.0%	8.7%
Permanent items	2.2%	—%	—%
State taxes	4.2%	5.3%	3.2%
Changes in valuation allowance	(21.5%)	(40.3%)	(33.5%)
Other—net	.7%	2.3%	(1.2%)
Provision for income taxes	22.0%	9.3%	11.2%

At September 30, 2005, the Company had available state net operating loss (NOL) carryforwards of approximately \$6.2 million, which begin to expire in 2020, and foreign NOLs of approximately \$1.7 million, which do not expire. The valuation allowance at September 30, 2005 primarily relates to the foreign NOLs and a portion of the state NOLs. During fiscal 2005, the Company reversed \$685,772 of valuation allowances recorded against deferred tax assets as it was determined that it was more likely than not that these deferred tax assets would be realized. Circumstances could change in the future that would allow the Company to reduce the remaining valuation allowance and recognize additional net deferred tax assets.

13. Stockholders' Equity

Convertible Preferred Stock

On September 3, 2004, the Company issued 3,262,643 shares of Series C preferred stock (Series C Stock) to an unaffiliated party in exchange for \$20 million in cash (the Investment). In connection with this transaction, LSI declared and paid a \$20 million distribution to shareholders on the Company's capital stock outstanding immediately prior to the closing.

Holders of the Series C Stock are entitled to participate on an as converted basis in any dividend declared on the common stock of the Company other than at the time of the initial Investment.

The holders of the Series C Stock have voting rights equal to those provided to holders of the common stock. Holders of Series C Stock have the right to vote the number of shares of common stock into which each share of the Series C Stock is convertible.

The holders of the Series C Stock are entitled to a liquidation preference equal to \$6.13 per share, subject to adjustment, plus any declared but unpaid dividends (the Series C Liquidation Preference) prior to any distribution to the holders of common stock. After the payment of the Series C Liquidation Preference, holders of the Series C Stock shall be entitled to participate (the Participation Feature) in all distributions to the holders of common stock on an as-converted basis up to a maximum amount equal to a multiple of 1.5 to 3.0 times the Investment (which shall be calculated including the Series C Liquidation Preference).

On the last day of the fifth year following the Investment, the Series C Liquidation Preference will increase 15% and, beginning on the first day of the sixth year from the date the Investment closes, the Series C Liquidation Preference will increase by 8% per annum, accruing on a daily basis but not compounding.

If the Company achieves the performance criteria in the stock purchase agreement, then in the event of a liquidation, holders of the Series C Stock shall be entitled to receive in preference to the holders of the common stock an amount equal to the greater of (i) the Series C Liquidation Preference (exclusive of the Participation Feature), or (ii) the amount per share holders would have received if all shares of the Series C Stock had been converted into the common stock of the Company. The Participation Feature of the Series C Stock will expire if: (i) the Company achieves certain performance milestones through September 30, 2006; or (ii) the Company completes an Initial Public Offering, at which time the Series C will be converted into common stock.

The Series C Stock was convertible into 3,262,643 shares of common stock at September 30, 2005. Each share of Series C Stock will be converted automatically into common stock upon the earlier of: (i) the closing of a qualified underwritten public offering or (ii) by vote, written consent or agreement of the holders of at least 60% of the Series C Stock then outstanding.

2000 Stock Option and Incentive Plan

In 2000, the Company established the 2000 Stock Option and Incentive Plan, which was amended and restated as the 2005 Stock Option and Incentive Plan, (the Plan) under which eligible employees and non-employees may be granted options to purchase shares of the Company's common stock. The Plan provides for the issuance of a maximum of 7,611,195 shares of common stock. As of September 30, 2005, the Company has reserved 309,292 shares of common stock for future issuances of stock under the Plan. The exercise price is determined by the Board of Directors, which is equal to the then fair value of the common stock for incentive stock options and is determined on a per-grant basis for nonqualified options. The vesting period of options granted under the Plan is determined by the Board of Directors, and the stock options generally expire 10 years from the date of the grant.

During July 2001, the Company modified the exercise price of 3,402,794 stock options issued to employees. The stock options were originally granted with an option exercise price of \$0.45. The

modified stock options have an exercise price of \$0.05 and all other terms and conditions of the options such as vesting schedules and expiration dates remained unchanged. The Company is accounting for the modified stock options from the date of modification to the date the stock options are exercised, forfeited, or expire unexercised using variable accounting. Under variable accounting, the Company will revalue compensation costs for the stock options at each reporting period based on changes in the intrinsic value of the stock options. The Company recorded \$87,403 and \$85,010 in stock compensation expense based on vesting of the fair value of the options, using the Black-Scholes option-pricing model for the years ended September 30, 2005 and 2004, respectively. The Company will continue to revalue compensation costs for the options based on changes in the fair value of the Company's common stock.

Stock Option Activity

A summary of the Company's stock option activity for the years ended September 30, 2005 and 2004 is as follows:

	Options	Weighted-Average Exercise Price
Options outstanding at September 30, 2003	2,520,218	\$ 0.13
Options granted	120,000	0.35
Options exercised	(2,327,771)	0.11
Options canceled	(15,750)	0.05
Options outstanding at September 30, 2004	296,697	0.42
Options granted	868,750	2.78
Options exercised	(240,568)	0.81
Options canceled	(11,594)	0.05
Options outstanding at September 30, 2005	913,285	2.53
Options exercisable at September 30, 2005	177,918	1.33

The following table summarizes information about options outstanding at September 30, 2005:

Range of Exercise Price	Options Outstanding		
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price
\$0.05	25,723	6.09	\$ 0.05
\$0.35 – \$0.80	112,562	1.19	0.75
\$2.00 – \$5.00	775,000	9.62	2.87
	913,285	8.48	2.53

Warrants to purchase common stock issued to outside parties, which are not included in the above amounts, are 75,000.

Shares

Liquidity Services Inc.

Common Stock

PROSPECTUS

FRIEDMAN BILLINGS RAMSEY

RBC CAPITAL MARKETS

CIBC WORLD MARKETS

PACIFIC CREST SECURITIES

Until _____, 2006, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to unsold allotments or subscriptions.

PART II

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth all fees and expenses, other than underwriting discounts and commissions, payable in connection with the issuance and distribution of the securities being registered. Except as otherwise noted, we will pay all of these amounts. All amounts except the SEC registration fee, the NASD filing fee and the Nasdaq listing fee are estimated.

SEC Registration Fee	\$	10,152
NASD Filing Fee		9,125
Nasdaq Listing Fee		5,000
Accounting Fees and Expenses		*
Legal Fees and Expenses		*
Printing Fees and Expenses		*
Transfer Agent Fees and Expenses		*
Blue Sky Fees and Expenses		*
Miscellaneous		*
Total	\$	2,000,000

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law permits a corporation to include in its corporate documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law. Our bylaws provide for the indemnification of directors to the fullest extent permissible under Delaware law. In addition, Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors and third parties acting on our behalf if such person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful. We have entered into indemnification agreements with our directors and executive officers in addition to indemnification provided for in our corporate documents, and we intend to enter into indemnification agreements with any new directors and executive officers in the future. We intend to purchase and maintain insurance on behalf of any person who is or was a director or officer against any loss arising from any claim asserted against him or her and incurred by him or her in any such capacity, subject to certain exclusions.

Item 15. Recent Sales of Unregistered Securities

In the three years preceding the filing of this registration statement, we have sold and issued the following unregistered securities:

1. In August 2004, in connection with the exercise of outstanding warrants at \$.802 per share, we issued an aggregate of 67,561 shares of our common stock to three individuals who were executive officers of our company.
2. In May 2003, we entered into an investment agreement with a commercial lender providing for a loan in the amount of \$2 million. In connection with this loan, we also issued to this lender a

warrant to purchase 517,094 shares of our common stock. In August 2004, the lender exercised its warrant to purchase all 517,094 shares at an exercise price of \$.000019339 per share.

3. In September 2004, we issued an aggregate of 49,873 shares of our common stock to certain holders of our Series A preferred stock upon the automatic conversion of our Series A preferred stock pursuant to the terms set forth in our certificate of incorporation.

4. We also issued 31,173 shares of our common stock upon conversion of our Series B preferred stock pursuant to the terms set forth in our certificate of incorporation.

5. In September 2004, we issued and sold an aggregate of 3,262,643 shares of our Series C preferred stock for a purchase price of \$6.13 per share to ABS Capital Partners IV, L.P., ABS Capital Partners IV-A, L.P., ABS Capital Partners IV Offshore, L.P., and ABS Capital Partners IV Special Offshore, L.P. The purchase price for these shares was paid in cash.

6. In September 2004, in connection with the exercise of outstanding warrants, we issued 30,121 shares of our common stock, at an exercise price of \$.83 per share, and 62,344 shares, at an exercise price of \$.802 per share.

7. Since November 2002, we have granted stock options to employees and directors under our stock option plans covering an aggregate of 996,229 shares of our common stock as of October 30, 2005, at exercise prices ranging from \$.05 to \$5.00 per share. Of these, options to purchase an aggregate of 208,188 shares of our common stock have been exercised for an aggregate purchase price of \$225,453 or a weighted exercise price of \$1.08 per share.

No underwriters were involved in the foregoing sales of securities. Such sales were made in reliance upon the following exemptions from the registration provisions of the Securities Act: Section 4(2) of the Securities Act; Rule 506 under Regulation D of the Securities Act; and Rule 701 under the Securities Act. Appropriate legends were affixed to the stock certificates issued in such transactions. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

The Exhibit Index filed herewith is incorporated herein by reference.

(b) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts

All other information for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission is either included in the financial statements or is not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Liquidity Services, Inc. and Subsidiaries

We have audited the consolidated financial statements of Liquidity Services, Inc. and Subsidiaries as of September 30, 2005 and 2004, and for each of the three years in the period ended September 30, 2005, and have issued our report thereon dated November 7, 2005 (included elsewhere in this registration statement). Our audits also included the financial statement schedule listed in Item 16(b) of this registration statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

McLean, Virginia,
November 7, 2005

Liquidity Services, Inc.
Schedule II—Valuation and Qualifying Accounts
(dollars in thousands)

	<u>Balance at beginning of period</u>	<u>Charged to expense</u>	<u>Reductions</u>	<u>Balance at end of period</u>
Deferred tax valuation allowance (deducted from net deferred tax assets)				
Year ended September 30, 2003	\$ 2,643	\$ 966	\$ 1,116	\$ 2,493
Year ended September 30, 2004	2,493	1,611	2,649	1,455
Year ended September 30, 2005	\$ 1,455	\$ 478	\$ 1,164	\$ 769

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purpose of determining any liability under the Securities Act of 1933 each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Washington D.C., on November 14, 2005.

LIQUIDITY SERVICES, INC.

By: /s/ WILLIAM P. ANGRICK, III

William P. Angrick, III
Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William P. Angrick, III and James M. Rallo, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, from such person and in each person's name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement or any registration statement relating to this registration statement under Rule 462 under the Securities Act of 1933 and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities on November 14, 2005.

Signature	Title
<hr/> /s/ WILLIAM P. ANGRICK, III <hr/> William P. Angrick, III	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
<hr/> /s/ JAMES M. RALLO <hr/> James M. Rallo	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
<hr/> /s/ JAIME MATEUS-TIQUE <hr/> Jaime Mateus-Tique	President, Chief Operating Officer and Director
<hr/> /s/ PHILLIP A. CLOUGH <hr/> Phillip A. Clough	Director
<hr/> /s/ PATRICK W. GROSS <hr/> Patrick W. Gross	Director
<hr/> /s/ FRANKLIN D. KRAMER <hr/> Franklin D. Kramer	Director

EXHIBIT INDEX

Exhibit No.	Description
1.1	Form of Underwriting Agreement*
3.1	Restated Certificate of Incorporation*
3.2	Amended and Restated Bylaws*
4.1	Form of Certificate of Common Stock of the Company*
4.2	Registration Rights Agreement, dated September 3, 2004, by and between the Company and ABS Capital Partners IV, L.P., ABS Capital Partners IV-A, L.P., ABS Capital Partners IV Offshore L.P. and ABS Capital Partners IV Special Offshore L.P.*
5.1	Opinion of Hogan & Hartson L.L.P. as to the legality of the securities being registered*
10.1	Defense Logistics Agency, Surplus Commercial Property, Defense Reutilization and Marketing Service, Invitation for Bids, No. 99-0001, December 2000
10.2	Defense Logistics Agency, Multi-Year Sale of Surplus Scrap Material at Locations Nationwide, Defense Reutilization and Marketing Service, Invitations for Bids, No. 99-4001, December 7, 2004
10.3	Amended and Restated Executive Employment Agreement, dated _____, between the Company and William P. Angrick, III*##
10.4	Amended and Restated Executive Employment Agreement, dated _____, between the Company and Jaime Mateus-Tique*##
10.5	Amended and Restated Executive Employment Agreement, dated _____, between the Company and Benjamin R. Brown*##
10.6	Amended and Restated Executive Employment Agreement, dated _____, between the Company and James M. Rallo*##
10.7	Amended and Restated Executive Employment Agreement, dated _____, between the Company and Thomas Burton*##
10.8	2005 Stock Option and Incentive Plan#
10.9	2006 Omnibus Long-Term Incentive Plan*##
21.1	List of Subsidiaries
23.1	Consent of Hogan & Hartson L.L.P. (included in Exhibit 5.1)*
23.2	Consent of Ernst & Young L.L.P.
24.1	Power of Attorney (included on signature page)

* To be filed by amendment.

Indicates a management contract or any compensatory plan, contract or arrangement

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**DEFENSE LOGISTICS AGENCY
DEFENSE REUTILIZATION AND MARKETING SERVICE
NATIONAL SALES OFFICE
74 WASHINGTON AVENUE NORTH, SUITE 6
BATTLE CREEK, MICHIGAN 49017-3092**

CORRECTED COPY

IN REPLY
REFER TO

DRMS-BU

June 15, 2001

William P. Angrick, III
Chairman
Surplus Acquisition Venture, LLC
2131 K Street, NW, 4th Floor
Washington, DC 20037

Thomas Burton
President
Government Liquidation.com, LLC
2131 K Street, NW, 4th Floor
Washington, DC 20037

Robert Levy
Chief Executive Officer
Surplusbid.com, Inc.
6263 North Soottsdale Road, Suite 371
Scottsdale, AZ 85250

Earl Bray
President
Levy/Latham Global LLC
6263 North Scottsdale Road, Suite 371
Scottsdale AZ, 85250

Gentlemen:

We have reviewed the materials submitted by Government Liquidation.com, LLC (GL), Surplusbid.com, Inc. (Surplusbid), and Levy/Latham Global, LLC (LLG) (collectively, the "Parties") in connection with the proposed acquisition (the "Acquisition") by GL of the surplus property disposition business conducted by LLG under the Commercial Venture 1 (CV1) contract, 99-7005-0002, with the Defense Reutilization and Marketing Service (DRMS).

These materials include, without limitation:

1. April 19, 2001 Transaction Summary presentation;
2. April 19, 2001 Asset Purchase Agreements among the Parties;
3. April 20, 2001 Letter from Surplusbid confirming ownership of web site;
4. April 23, 2001 Withdrawal of Protests Letter from Surplusbid; and
5. May 9, 2001 CV-1 Termination and Release Letter from LLG.
6. Waiver of Claim Liability received by DRMS on June 14, 2001.

Pursuant to Part VII, Article One, Section 7, Para. (A) of the CV1 contract, DRMS approves the Acquisition.

In addition, DRMS confirms the following:

- a. Formal Award of CV2, 99-0001-0002, to Surplus Acquisition Venture (SAV). The CV2 contract has been awarded to SAV as of June 13, 2001.
- b. Termination of CV1 and Transition to CV2. Pursuant to Surplusbid's request, the CV1 contract is terminated effective as of June 15, 2001. Effective on such date, all property referrals previously made under CV1 (including any outstanding invoices for previous deliveries) may be transferred to, and assumed by, GL pursuant to, and under the bid prices and terms of, CV1. DRMS approves the transfer of all work in progress, referrals, sales, and other activities conducted by LLG under CV1 to GL under CV2, all in accordance with the terms of CV2.
- c. Treatment of Purchase Price as Direct Cost. The purchase price to be paid to Surplusbid and LLG, respectively, is approved as a direct cost under CV2.
- d. SAV Deposit Under CV2. The \$235,000 Surplusbid "Payment Deposit" held by DRMS shall be applied towards the SAV "Payment Deposit" requirements applicable under CV2.

If you have any questions in this regard, please contact the undersigned at (616) 961-7593.

Sincerely,

/s/ Donald B. Zimmerman
DONALD B. ZIMMERMAN
Sales Contracting Officer

3



SURPLUS COMMERCIAL PROPERTY

DEFENSE REUTILIZATION AND MARKETING SERVICE

**INVITATION FOR BIDS
NO. 99-0001**

STEP TWO OF TWO - STEP SOLICITATION

DECEMBER 2000



SURPLUS COMMERCIAL PROPERTY

DEFENSE REUTILIZATION AND MARKETING SERVICE

**INVITATION FOR BIDS
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**SURPLUS COMMERCIAL PROPERTY
 INVITATION FOR BIDS
 No. 99-0001**

I. STEP TWO OF TWO-STEP SEALED BIDDING

This Invitation For Bids (IFB) is issued by the Defense Reutilization and Marketing Service (DRMS) to initiate Step Two of two-step sealed bidding. The only bids that the Sales Contracting Officer may consider for award of a contract are those received from bidders that have submitted acceptable technical proposals in Step One of this solicitation under RFTP 99-0001.

The Key Personnel designations in the successful bidder's technical proposal shall be incorporated into any contract awarded in response to this IFB. *In all other respects, the provisions of this IFB shall govern the contract contemplated hereby without regard to assumptions, plans, forecasts, conditions or any other matters set forth in any prospective bidder's technical proposal submitted in Step One.*

Instructions and forms for submitting a bid are set forth in the accompanying "Bidding Instructions and Bid Forms." Your Bid Forms and \$100,000.00 Bid Deposit must be delivered to and received by DRMS before the bid opening at 9:00 a.m. EST on Wednesday January 31, 2001). Address your Bid Forms and Bid Deposit to:

Tina Aldrich
 Sales Contracting Officer
 DRMS - LMU
 74 North Washington Avenue
 Battle Creek, Michigan 49017

II. GENERAL STATEMENTS OF CONTRACT TERMS

Certain of the contents and provisions of Parts III through VII of this IFB, including Appendices, Attachments and Schedules, are described in general and summary terms in this Part II. Statements in this Part II as to such contents and provisions are not intended to be complete. Reference is made to such contents and provisions for a complete description of the matters involved, and each such statement shall be deemed qualified in its entirety by such reference.

A. INTRODUCTION

The structure of the sale described in this IFB is virtually identical in all material respects to the earlier sale contract for surplus industrial property that was awarded by DRMS in July of 1998 to Levy/Latham LLC and that is presently ongoing. That type of sale is called the DRMS "Commercial Venture" or "CV." As is described more specifically below, the CV structure is a "pipeline" sale, so named because the successful bidder pre-commits to purchase all of certain types of property deemed "Useable" (i.e., not "Scrap"(1)) that emerge from the DRMS "pipeline" in designated locations over a specified period of time. (Unless otherwise stated, capitalized terms have the meanings set forth or cross-referenced in Article 23 of Part VI below. Please refer to Part VI for complete definitions.) As is also described more specifically below, the CV structure is also a "net proceeds sharing sale" in that the successful bidder is obligated to share with DRMS a portion (78.2%) of the net proceeds realized from the re-sale of the property after deducting all of the costs of managing, transporting, protecting, improving and marketing the property. The CV sale structure is based upon a design originally developed for Resolution Trust Corporation and that RTC implemented in its largest and most successful asset sale transactions.

The initial CV sale ("CV-1") was of Useable items within the Continental United States (CONUS) that, described very generally, are "industrial." Thus, the CV-1 property types include such items as equipment, mechanical and electrical supplies and parts, and other similar items that are designated by federal procurement authorities within 312 particular Federal Supply Classifications ("FSCs"). CV-1 sold only items with a demilitarization code (DEMIL Code) assigned by Department of Defense authorities of "A," meaning that the CV-1 items neither require any demilitarization (i.e., destruction or mutilation) nor are subject to trade security (export) controls.

(1) Please refer to Section II.C below for a discussion of the Useable and Scrap designations.

This IFB for DRMS's second CV sale ("CV-2") concerns the balance of the DRMS "pipeline" of Useable property(2) in the United States (i.e., CONUS plus Alaska and Hawaii), plus Guam and Puerto Rico, with DEMIL Code "A." That is, the CV-2 sale will be of all Useable DEMIL "A" items categorized in any of 342 FSCs that are **not** included in CV-1. These include FSCs with "Commodity Type" labels of Aircraft and Ground Support, Vehicles, Textiles (including clothing, footwear, etc.), Household, Electrical and Electronics, Office Machines (including some military training equipment), Chemicals (solvents, dyes, fuels, etc.), Medical Devices (including dental), and Miscellaneous. In addition, this sale is *of all* Useable items (regardless of FSC(3)) with DEMIL Codes of "B" or "Q" in the United States, Guam and Puerto Rico. Described very generally, DEMIL "B" and "Q" items are subject to trade security (export) controls but do not require any demilitarization. These export controls and the procedures required to comply with them are described in detail below in Section V of this Part II. Finally, this sale also includes all items in Alaska, Hawaii, Guam and Puerto Rico in the 312 CV-1 FSCs with DEMIL Code "A."

With CV-1 and CV-2 fully operating, DRMS personnel will no longer sell Useable property that is not coded for Hazardous Materials to any buyer in the United States, Guam and Puerto Rico other than the CV-1 and CV-2 buyers.

B. PRODUCT POOL AND PROPERTY FLOW

Products sold under this IFB are categorized by FSC and DEMIL Code. The included items identified by FSC and DEMIL Code constitute the "Product Pool." These are detailed in Table IV-1 of Part IV below. It lists both (i) the 312 FSCs for which all items with DEMIL Codes "B" or "Q" are included in the Product Pool (as well as items in these FSCs with DEMIL Code "A" in Alaska, Hawaii, Guam and Puerto Rico), and (ii) the 342 other FSCs for which all items with DEMIL Codes of "A," "B" or "Q" (in the United States, Guam and Puerto Rico) are included in the Product Pool, and indicates for each FSC the included DEMIL Codes.

Described generally, the Property in the Product Pool is (i) all items declared excess to the needs of the Department of Defense and surplus to the needs of the Federal Government, and received by DRMS on its accountable record, (ii) with the subject combinations of FSC and DEMIL Codes "A," "B" or "Q" (i.e., including Munitions List Items and Commerce Control List Items, but demilitarization is not required) that are indicated in Table IV-1, (iii) and a Hazardous Materials Code other than "W" (hazardous waste) or "M" (hazardous material), (iv) that become available in the United States, Guam and Puerto Rico(4) (v) upon completion of the R/T/D process (i.e., fifteen (15) Days after the End of Screening Date assigned by DRMS to each particular such item).

(2) Both CV sales exclude items that are coded for Hazardous Materials. In addition, all items in 20 particular FSCs are excluded from both sales because of safety and environmental concerns. Examples are transformers, pest control agents and disinfectants, and compressed gas cylinders.

(3) Other than the items excluded as described in n.2.

(4) Excluding, of course, the DEMIL "A" items in CONUS in the 312 CV-1 FSCs.

Throughout the eighty-four (84) month Performance Period of the contract, DRMS will have the contractual obligation to refer **all** such Property for purchase under the contract.

The Purchaser will have the exclusive right to purchase **all** of the flow of such Property, and once Property has cleared the R/T/D process, DRMS will not be able to divert any such Property to another buyer. Subject to certain limited exceptions, the Purchaser will have the corresponding contractual obligation to purchase **all** of the flow of Property in the Product Pool after an initial Phase-In Period. (The Purchaser, however, will also have the right to abandon property after having paid the Contractor's Purchase Price. See Part VI, "Additional Terms and Conditions of Sale," Article 3; references to Articles in Part VI are hereinafter abbreviated "Art. ") The Purchaser is encouraged to market the Property to traditional DRMS buyers.

The flow of Property in the Product Pool has varied between 1985 and 2000. Figures II-1 and II-2 below present summary data on Unadjusted Acquisition Value and DRMS Gross Proceeds, respectively, for the CV-1 and CV-2 Product Pools for the fiscal years from 1985 through 2000 (for FY 2000, annualized from ten months of data through July). **Unless otherwise indicated, data tables and graphics in this IFB present DRMS CONUS data only.** Figure II-3 presents the Unadjusted DRMS Gross Rate of Return for FY 1985 through July of FY 2000 for the CV-1 and CV-2 product Pools. These data are "unadjusted" for scrap rates as set forth in Section C. of this Part II below.

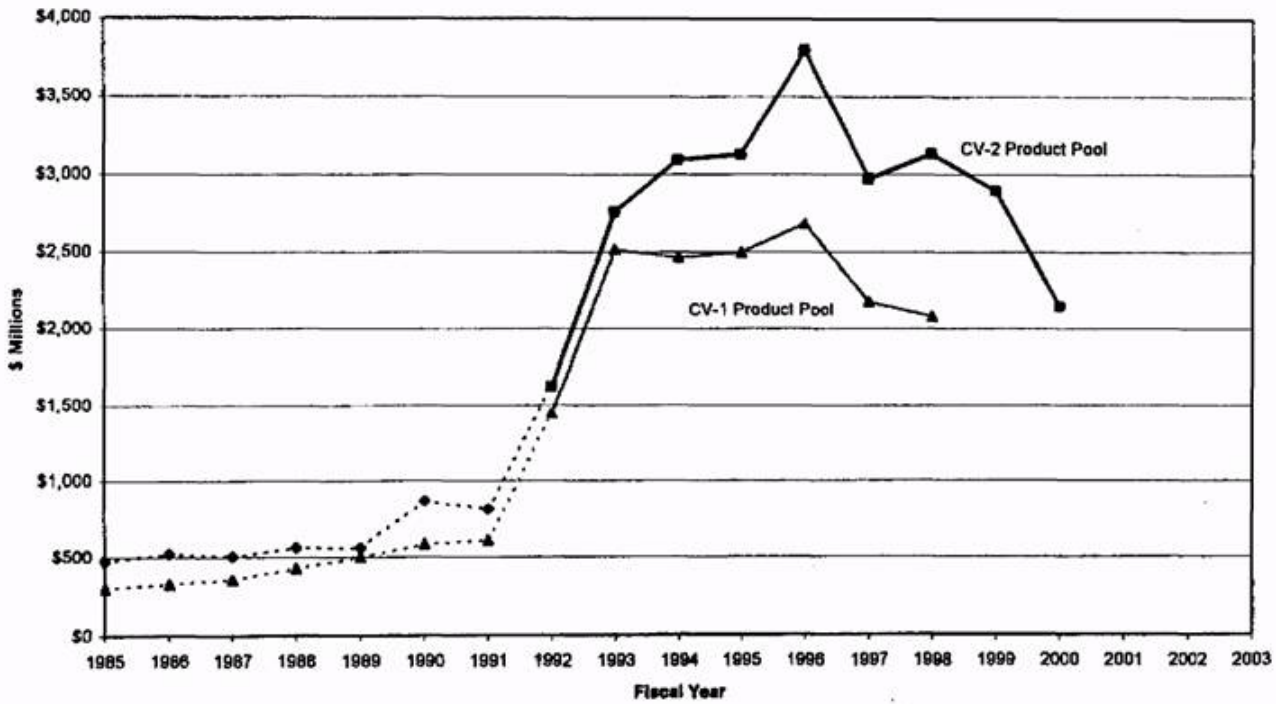
Over the course of 1990 and 1991, DRMS designed and implemented an upgraded inventory control and data storage system. The data for fiscal 1985 through and including fiscal 1991, representing the period prior to full implementation of the upgraded system, are indicated by the broken line in the figures that follow. These historic data are presented only for general reference and no attempt has been made systematically to validate the data for those earlier years. The data from 1992 through and including 2000 are based on recent data extractions from DRMS's data storage and retrieval systems, and cover the period in which the DRMS upgraded systems have been fully operational. **These data, and other data presented herein, are derived using the best available sources, but DRMS cannot guarantee the accuracy of such data.**

"DRMS Gross Proceeds" means the gross dollar sales revenues obtained by DRMS upon the sale of particular items in a particular year. "DRMS Gross Rate of Return" (ROR) means DRMS Gross Proceeds divided by the subject items' total Acquisition Value, expressed as a percentage.

Each item of Property is identified by either a National Stock Number (NSN) or a Local Stock Number (LSN) provided by the "generator" — usually a military base or other Department of Defense (DoD) facility — that turns the item in to DRMS as surplus. NSNs are obtained from centralized federal procurement records. For items identified by the generator by NSN, DRMS employs an automated system that matches the NSN to the item's Acquisition Value as recorded in these procurement records.

LSNs are assigned by personnel of the generator for items for which the item's NSN is unknown or unavailable. The Acquisition Value of an item identified by LSN is determined by

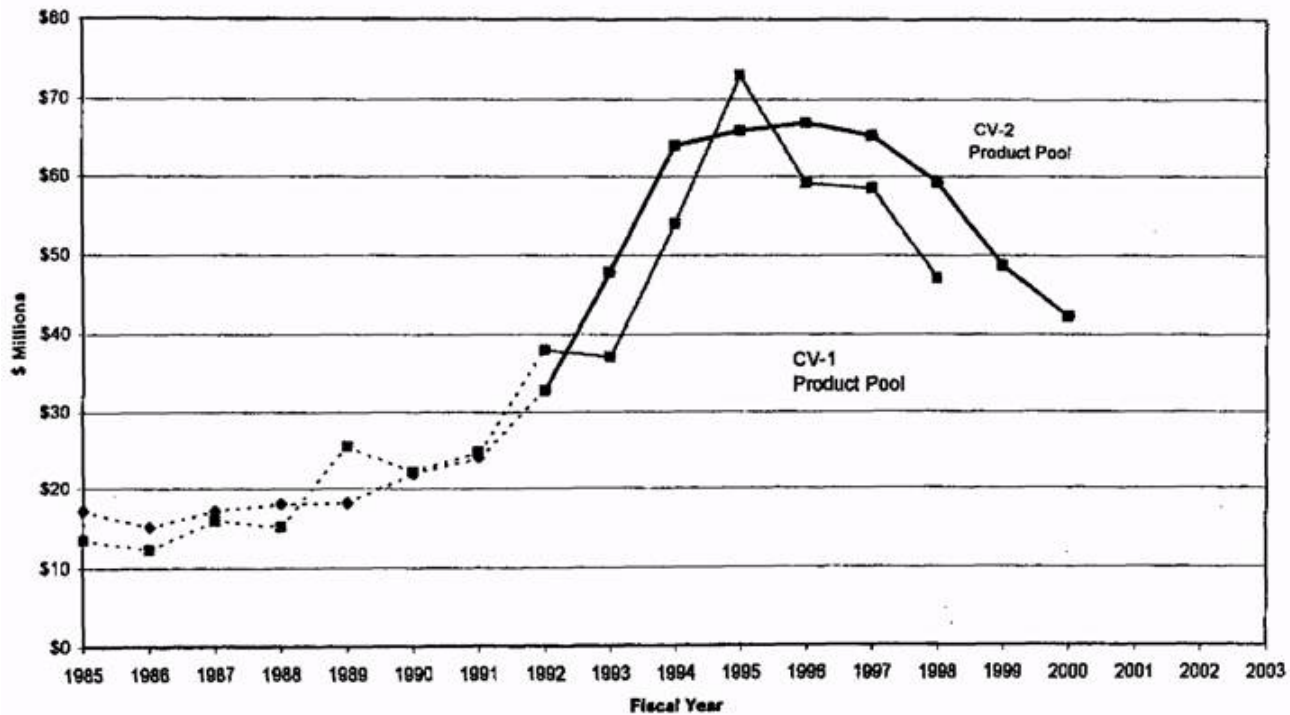
Figure II-1
CONUS Product Pool Unadjusted Acquisition Values
Fiscal Years 1985-2000*
 (\$ Millions)



* Data for FY 2000 are annualized based on 10 months.

4.1

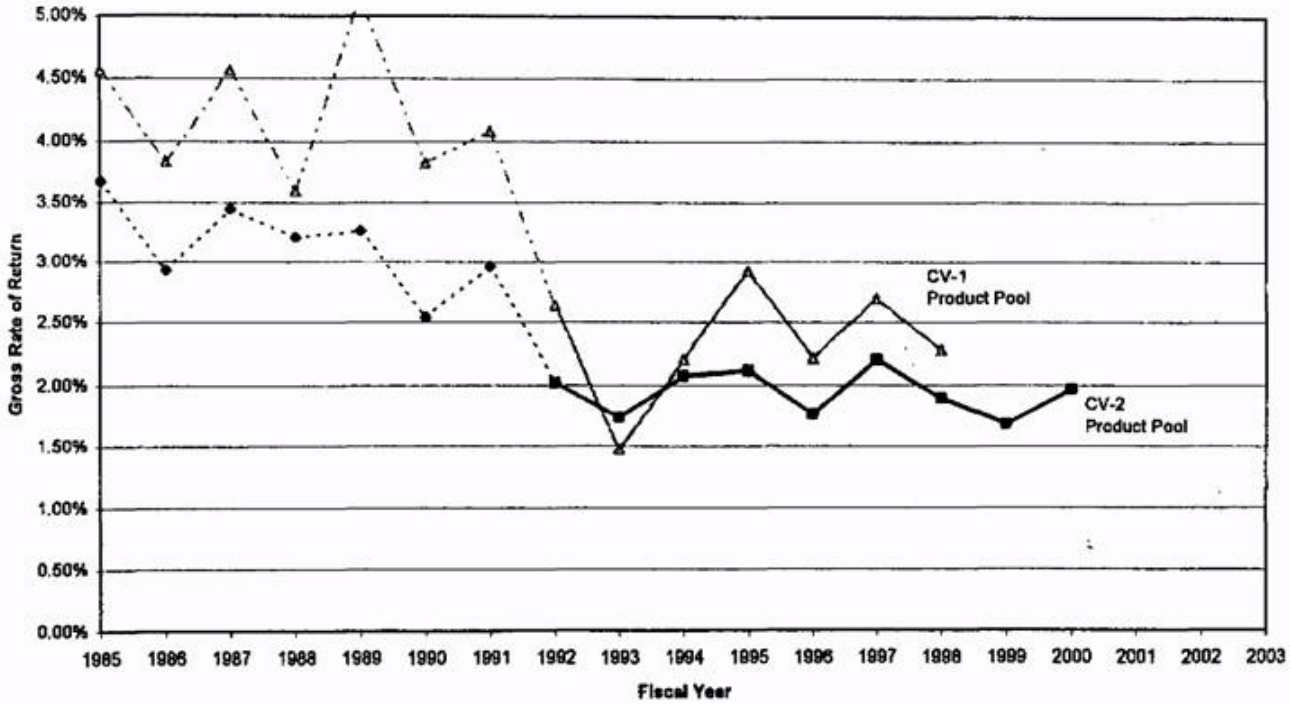
Figure II-2
DRMS CONUS Product Pool Gross Proceeds
Fiscal Years 1985-2000*
 (\$ Millions)



* Data for FY 2000 are annualized based on 10 months.

4.2

Figure II-3
CONUS Product Pools
Unadjusted DRMS Gross Rate of Return
Fiscal Years 1985-2000*



* Data for FY 2000 are limited to 10 months through July.

4.3

the generator and reported to DRMS on the documentation associated with release of the item by the generator to DRMS. LSN Acquisition Values are either the generator's recorded original procurement cost or its estimate of the item's replacement cost. In some instances, DRMS receiving personnel correct the generator's turn-in documentation by replacing an LSN with an NSN. In such cases the item's Acquisition Value is that corresponding to the NSN rather than that originally reported by the generator.

C. DESIGNATION OF SCRAP VS. USEABLE ITEMS

This contract concerns the sale only of items that are designated by DRMS as Useable (rather than Scrap) when an item is received by DRMS from a generator.

The generator tentatively designates an item as Useable or Scrap when the item is presented for turn-in to DRMS. The DRMS receiving personnel may either accept a Scrap designation or upgrade the item to Useable (an "Upgrade Upon Receipt"). The DRMS receiving personnel similarly may either accept a Useable designation or downgrade the item to Scrap (a "Downgrade Upon Receipt").

All items that are initially designated as Scrap by DRMS (either by reason of DRMS accepting the generator's Scrap determination or by way of a Downgrade Upon Receipt) are sold as such to Scrap purchasers without R/T/D review. Thus, all items that DRMS sends through the R/T/D process are initially designated by DRMS as Useable. **Those items that then emerge from R/T/D review and otherwise conform to the definition of the "Property" will be sold to the Purchaser under this contract.**

Under DRMS operations, items that are designated as Useable upon receipt and that are not claimed and removed during the R/T/D process are offered by DRMS for sale to the public. Most such sales are through sealed bid sales. Some items, however, do not sell (i.e., there are no bids) or, even before sale is attempted, some items are withdrawn from the sale process because DRMS personnel believe that they are not saleable. All of these unsold items are downgraded to Scrap and sold as such (each, a "Post-Receipt Downgrade").

The data in Figure II-3 above show the "Unadjusted DRMS Gross ROR" for items in the Product Pool. This figure reports Gross RORs, determined by the formula Gross Proceeds divided by the Acquisition Value of the items actually sold as Useable. These data, therefore, are not adjusted for Post-Receipt Downgrades of items that were not sold as Useable. Under this contract, however, the Purchaser will generally be obligated to purchase *all* of the subject items initially designated as Useable and that emerge from R/T/D, even though in DRMS's experience a certain proportion of such items are ultimately sold as Scrap. There may be exceptions to this general rule in particular cases, in that the Purchaser may challenge the referral of a particular item on the ground that the item should properly have been designated upon receipt as "Scrap." DRMS may respond to such challenge in the exercise of its sole discretion. If DRMS agrees with the challenge, DRMS will be responsible for the removal of the item and DRMS will credit a succeeding invoice accordingly. See Art. 6.

Figures II-4a and II-4b present available data for Unadjusted and Adjusted Acquisition Value for CV-2 and CV-1 items, respectively, for FY 1985 through July of FY 2000.(5) Figure II-5 presents data for this period for Unadjusted and Adjusted Gross ROR for the two Product Pools. "Adjusted Gross ROR" is calculated by dividing Gross Proceeds obtained by the sale of Useable items by the "Adjusted Acquisition Value," which is the sum of the total Acquisition Value of those items that were sold as Useable and the total Acquisition Value of those items that were scrapped after being classified upon receipt as Useable (the Post-Receipt Downgrades). These calculations of Adjusted Acquisition Value and Adjusted Gross ROR are employed throughout the presentation of data in the balance of this IFB unless expressly otherwise described.

Note that this specification of DRMS Adjusted Gross ROR does not include the proceeds from Scrap sales in the calculation. These data accordingly slightly understate historical DRMS cash recoveries on items initially designated by DRMS as Useable.

Prospective offerors should note that, since the mid-1990s, the Gross Proceeds attributable to both the CV-1 and CV-2 Product Pools have declined substantially, as have the corresponding Adjusted Acquisition Values in both Product Pools. The Acquisition Values for Post-Receipt Downgrades for CV-2 items have also declined, but not as much as the Unadjusted Acquisition Values. Thus, in recent years CV-2 Post-Receipt Downgrades have constituted an increasing proportion of the CV-2 Product Pool.(6) Overall, therefore, revenues obtained from the sale of items in both Product Pools have declined in recent years, while, at least in the case of CV-2 items, the proportion of Post-Receipt Downgrades has increased, a factor that may have caused increased operating costs.

Prospective Offerors should also note that DRMS cannot predict either the volume of items that the Purchaser will sell, abandon or otherwise dispose of as scrap, or the revenues obtainable therefrom, or whether the revenues from disposition of scrap will exceed the costs thereof. The offeror therefore must account for this risk in its bidding. DRMS expressly disavows any implicit prediction, projection or suggestion to the contrary.

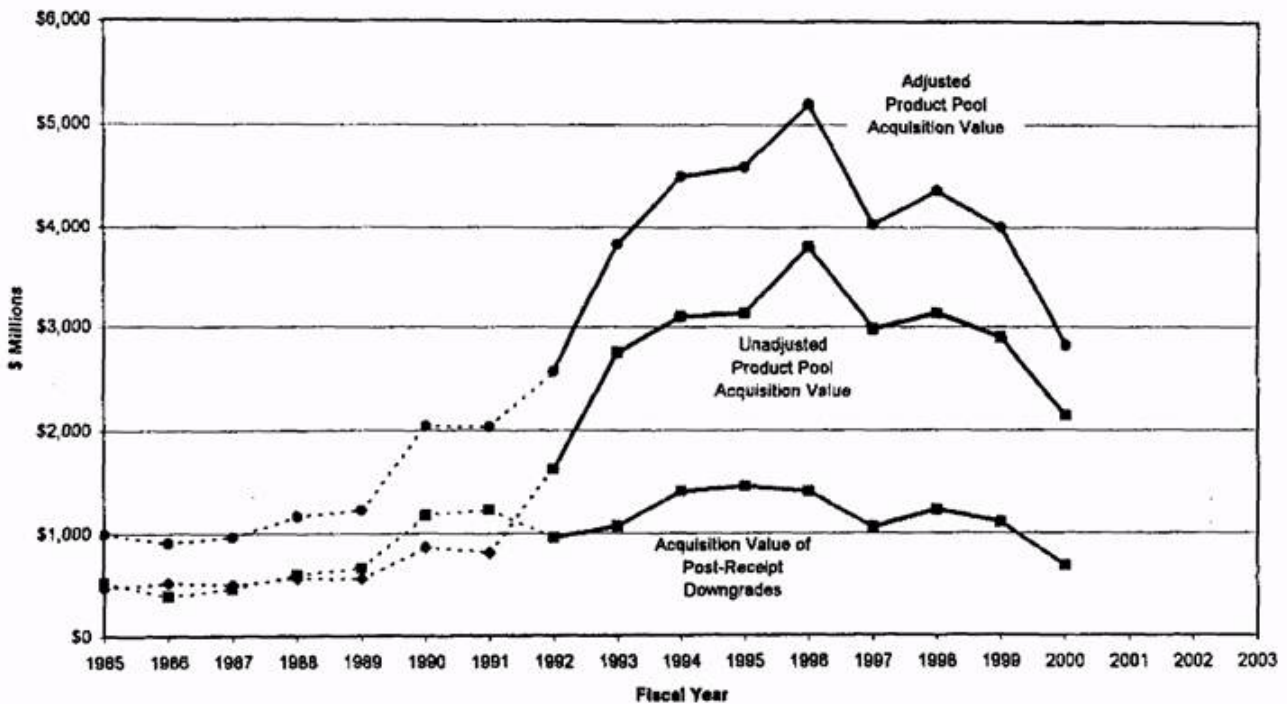
D. PHASE-IN PERIOD AND PERFORMANCE PERIOD

During The initial "Phase-In Period," the Purchaser will have five (5) months after the post-award conference to arrange for the facilities, staffing and equipment that will initially be required to receive and process Property at the fifteen (15) CONUS DRMOs that are to be the Initial Delivery Points. The Purchaser must be prepared to accept Property at all Delivery Points within eight (8) months after the post-award conference. (See Art. 3.) During the Phase-In

(5) In Figs. II-4b and II-5, data for Unadjusted Acquisition Value and Gross ROR for CV-1 items are unavailable for FY 1999 and thereafter because CV-1 has been operating and there are no Post-Receipt Downgrades.

(6) There are no Post-Receipt Downgrade data for CV-1 after the end of FY 1998, when the CV-1 sale contract began operating.

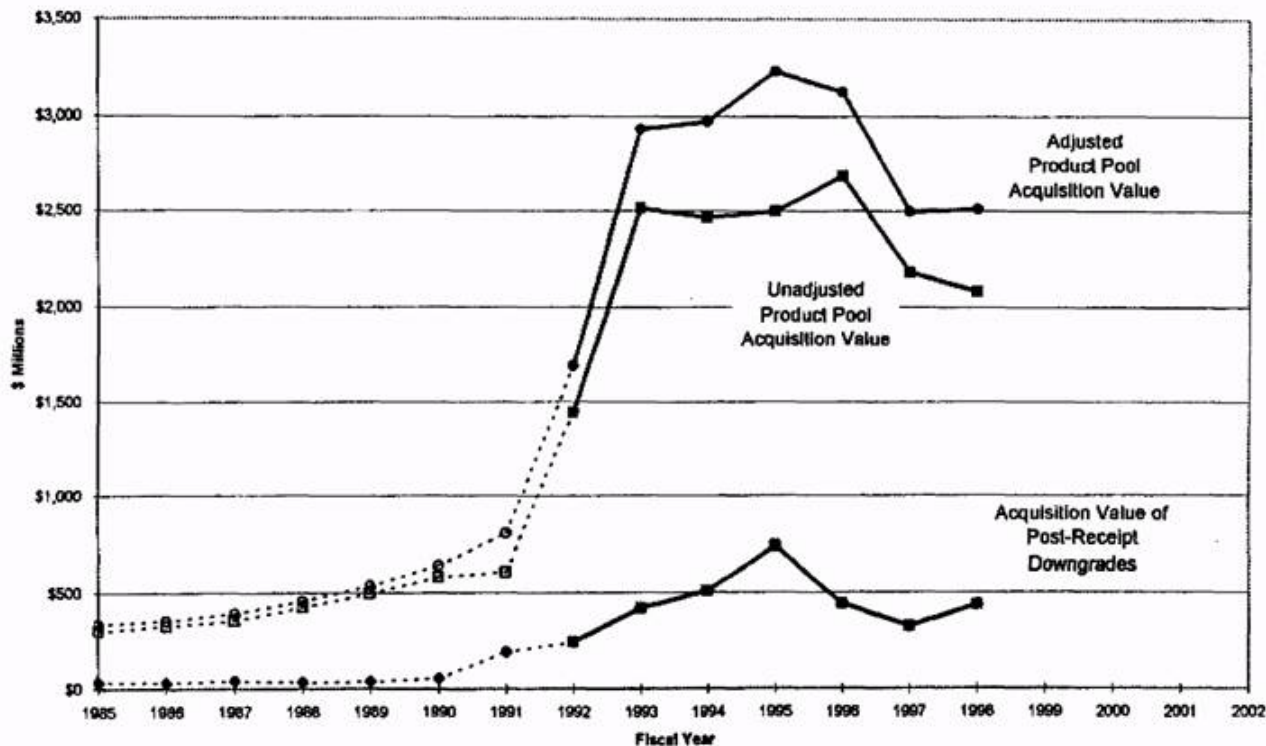
Figure II-4a
CONUS Unadjusted and Adjusted CV-2 Product Pool Acquisition Value
Fiscal Years 1985-2000*
(\$ Millions)



* Data for FY 2000 are annualized based on 10 months.

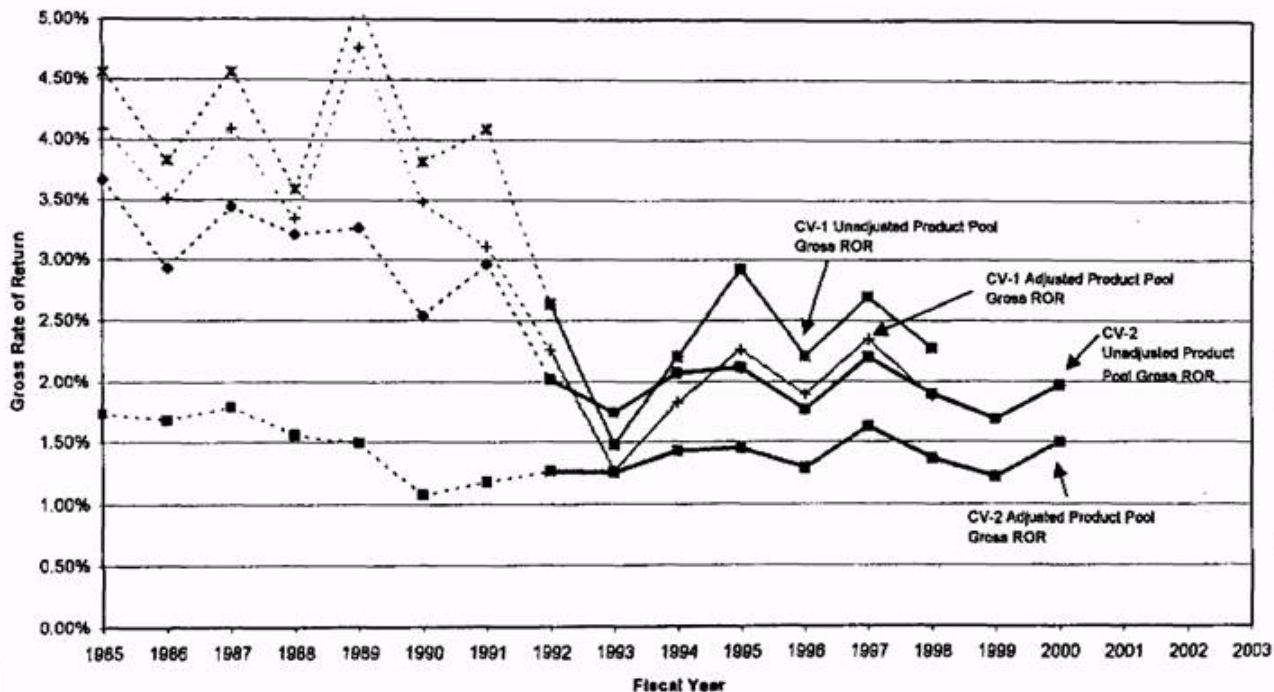
Figure II-4b
CONUS Unadjusted and Adjusted CV-1 Product Pool Acquisition Value

Fiscal Years 1985-1998
(\$ Millions)



6.2

Figure II-5
Gross Rate of Return
CONUS Unadjusted and Adjusted Product Pools
Fiscal Years 1985-2000*



* Data for FY 2000 are limited to 10 months through July.

6.3

Period, DRMS shall have the right to sell to other buyers such Property as is located at DRMOs that, at the time, are not yet scheduled for referrals of Property for sale to the Purchaser.

The Performance Period for the contract is eighty-four (84) months. (See Art. 2.) During this period all Property in the Product Pool will be referred for sale to the Purchaser.

DRMS and the Contractor will have an objectively defined early cancellation option discussed in Section II.N below. (See Art. 2.)

E. PURCHASER AND CONTRACTOR RESPONSIBILITIES

The successful offeror is referred to as the "Contractor." The Contractor must form a single purpose Subchapter S corporation or Limited Liability Company referred to as the "Purchaser." The Contractor must own at least a fifty-one percent (51%) interest in the Purchaser and must control the Purchaser. (See Art. 1.)

The Purchaser will be the entity that purchases the Property, manages and disposes of the Property, and manages all financial affairs including receipts, payments, accounting systems, cashflow management, audits and cash distributions to the Contractor and DRMS. As provided in Part VI, the Purchaser also pays a portion of each DRMS distribution to Kormendi \ Gardner Partners ("KGP"). (See Art. 16.)

Although the Purchaser is the operational entity, both the Contractor and Purchaser are jointly responsible for the operations of the Purchaser. In particular, while the Contractor does not guarantee the business success of the Purchaser in any way, the Contractor does guarantee that the Purchaser will operate in total compliance with the contract. (See Art. 19.)

The Contractor's guarantee is secured in part by its Payment Deposit of \$500,000 (see Art. 5) and, unless the Contractor posts a "Financial Guarantee Bond" in the amount of \$1 million, by a provision for retaining a portion of the Contractor's distributions in a "Retention Fund" held by DRMS up to a maximum of \$500,000 in most circumstances (see Art. 15).

F. BID PERCENTAGES AND CONTRACTOR'S PURCHASE PRICE

As described in more detail in Part III, Bid Schedule, below, the "Contractor's Purchase Price" for each particular item of Property will be determined from the Contractor's bid. Described generally, the bid will specify the respective percentage (collectively, the Bid Percentages) that will be multiplied by the Acquisition Value for a particular item of Property, the result being the Contractor's Purchase Price for that item.

There will be thirteen (13) Product Subpool Bid Categories, each of which is comprised of a list of combinations of FSCs and DEMIL Codes. These Product Subpool Bid Categories were chosen as described in Part III, Bid Schedule, below.

G. POTENTIAL REFERRAL OF CV-1 ITEMS

The CV-1 transaction is scheduled to expire as of the last day of August 2003 (although it is possible that, pursuant to the provisions of the CV-1 sale contract, the transaction could end sooner if it is canceled or terminated for cause). Article 1 provides that, if the CV-1 transaction concludes before its scheduled expiration at the end of August 2003 through either cancellation or termination, DRMS has the option of requiring the CV-2 Purchaser to purchase the items in the CV-1 Product Pool over the course of the then-remaining balance of the CV-2 Performance Period. Article 1 further provides that, if CV-1 concludes through expiration at the end of August 2003, the CV-2 Purchaser will automatically be required to purchase the CV-1 items as of that date and for the then-remaining balance of the CV-2 Performance Period. Depending upon how and when the CV-1 transaction concludes, therefore, the CV-2 Purchaser could be purchasing a substantially increased volume of items over much of the term of the CV-2 contract. This could materially affect the Purchaser's structure of operating costs and revenues, and prospective offerors should take this into account in formulating their bids.

H. BIDDER DUE DILIGENCE

Prospective bidders will be provided detailed annual data on DRMS's Acquisition Value, Gross Proceeds, Adjusted ROR, line items and quantity by FSC, DEMIL Code and NSN/LSN indicator in fiscal years 1992 - 2000 in a data supplement to be issued shortly after this IFB. These databases are large and hence will be provided on portable electronic bulk storage media only, to be accompanied by a written key to the files and their fields.

Prospective bidders will be provided access to Property in the physical custody of DRMOs in the Continental United States on an expedited basis to be pre-arranged by DRMS. Contact Tina Aldrich at (616) 961-7427 to make arrangements.

I. NET PROCEEDS AND DIRECT COSTS

Described generally, the Purchaser's "Net Proceeds" is the Purchaser's Gross Proceeds (obtained by the Purchaser from the Property's sale or rental, buyer's premiums, insurance proceeds or by any other means), less all "Direct Costs." Direct Costs are, generally, all costs, other than the cost of purchasing the Property and the compensation and travel expenses of the Purchaser's Chief Executive Officer, that are actually incurred by the Purchaser solely for the management, preservation, improvement, transportation and disposition of the Property (including all costs commonly termed "overhead costs"), and paid either to a third party or to an affiliate in connection with a "Permitted Affiliate Transaction." (See Art. 9.)

Unless pre-specified as a Permitted Affiliate Transaction (see Art. 9), the costs of any transaction with an "Affiliated Party" (as such term is defined in Art. 23) will not be considered Direct Costs.

Direct Costs are directly payable by the Purchaser out of Gross Proceeds and deductible from Gross Proceeds when calculating cash distributions payable to DRMS and the Contractor. (See Sections K, L and M below; see also Art. 9 and Art. 16.)

J. SELLER INDIRECT COSTS

The nature of DRMS's business and the nature of the Property itself are such that, absent special provisions in this IFB, there would be certain business risks inherent in this sale transaction that would be very difficult or impossible for prospective bidders to accept. As set forth below, these risks principally relate to the logistics costs of removing Property that the Purchaser might be obligated to pick up from "off-site" locations. This IFB accordingly provides that certain of the Purchaser's costs are to be deemed "Seller Indirect Costs" and deducted in their entirety from distributions otherwise payable to

DRMS (rather than shared between DRMS and the Contractor as Direct Costs). This mechanism largely leaves the risks associated with these issues with DRMS (where they are today) and accordingly should considerably ameliorate these concerns for prospective offerors.

The logistics business risk that is addressed through the Seller Indirect Costs provisions is as follows. DRMS presently expects that Delivery of the vast majority of the Property that is referred for sale to the Purchaser will be at DRMOs. Subject to space constraints that are specific to each DRMO and that may change over time, almost all DRMOs will set aside indoor and outdoor space for Purchaser's Dedicated Storage that the Purchaser can utilize for processing the re-sale of the Property. Moreover, in most locations the Purchaser will be able to sell and deliver Property to re-sale buyers directly out of the Purchaser's Dedicated Storage at the DRMO(7) without transporting the Property any further. (If the Purchaser so elects, of course, it may instead move Property to another location for storage, consolidation, processing, refitting, re-sale or for any other purpose that does not contravene the express provisions of this IFB.)

Thus, DRMS generally expects that the Purchaser's field activities will principally be located at DRMOs except to the extent that, in exercising its business judgment, the Purchaser decides to transport the Property to other locations before re-sale. From time to time, however, there may be circumstances in which Delivery at a DRMO is not possible. An illustrative example is the sale of heavy equipment that would be very expensive to move to the DRMO from the generator's premises. Ideally the Delivery of the equipment would be "in place" without moving it at all, and the re-sale of the equipment would also be at the generator's facility such that the re-sale buyers would load and remove the equipment themselves. This may not be possible in all situations, however, especially in view of national security requirements and understandable limitations at particular military facilities. The Purchaser would then be required

(7) As is indicated elsewhere in this IFB, these statements about logistical arrangements pertain equally to DRMS Warehouses, should any be established, and to DRMOs.

to take Delivery of the Property "in place" and to transport it (either to its Purchaser's Dedicated Storage at a nearby DRMO or to another Purchaser facility) before re-selling it.

In its current operating environment, DRMS has facilities that it makes available to CV Purchasers for Dedicated Storage Space. However, DRMS's plan is to phase out its storage operations and to receive an escalating percentage of Property "in place." DRMS cannot guarantee that it can make any storage facilities available for Purchaser's use. Property received "in place" under this sale contract will be treated as set forth in Part VI of this IFB below. In particular, any transportation costs incurred for Property referred for sale in place at Special Situation Locations will be paid by DRMS as Seller Indirect Costs. Any expense incurred by Purchaser to obtain and operate a storage facility is a Direct Cost under this contract.

DRMS recognizes that the prospect of the Purchaser being obligated to incur inestimable (at the time of submitting a bid) and possibly ruinous transport costs for items that, for any reason, cannot be referred for sale and processed for re-sale at a DRMO (or referred for sale and processed for re-sale "in place") presents prospective bidders with a serious business risk. DRMS's market research revealed that the magnitude of this risk is such that many potential bidders would simply not bid at all if subject to this risk, while others would deeply discount their bid prices to account for it. In either event, this risk would threaten the viability of a transaction that otherwise is viewed as extremely mutually beneficial.

DRMS accordingly has significantly reduced this risk from the transaction through the mechanism of Seller Indirect Costs. Thus, one category of Seller Indirect Costs, described very generally, is comprised of the minimum reasonable costs incurred by the Purchaser for packing, loading and removing Property from Restricted Access Facilities and certain Property from DLA Depots, and for removing Property from Special Situation Locations when On-Site Processing is not permitted by DRMS. The Purchaser deducts the amount of Seller Indirect Costs incurred in a particular month, if any, from the Distribution Payment to DRMS for the month. (See Art. 9 and Art. 16.)

DRMS intends that the Seller Indirect Costs mechanism should moderate much of the risk posed by "in place" or "off site" referrals. Nevertheless, prospective offerors should be aware that DRMS increasingly receives items from generators at warehouse locations that are not DRMOs and that have only minimal part time staffs and limited operations. The Purchaser's operating costs at these Special Situation Locations, termed Forward Receiving Sites, may be relatively higher than at DRMOs. Because Forward Receiving Sites generally permit On-Site Processing, however, the Purchaser's costs will rarely be deemed Seller Indirect Costs. Prospective offerors should weigh this factor when formulating their bids.

Provisions relating to Seller Indirect Costs are contained in Articles 3, 9 and 16. Prospective offerors are encouraged to review them in detail.

K. OPERATING ACCOUNT AND DISTRIBUTIONS

The Contractor is generally required to cause the Purchaser to maintain sufficient cash in the Operating Account to meet the Purchaser's immediate cash needs. (See Art. 13.) Moreover, at the end of each month, the Purchaser must evaluate its ability to make cash distributions. Described generally, on the one hand the Purchaser may not make any distributions unless there is cash on hand in excess of the sum of **(i)** any amount owed to the Contractor for Working Capital Advances (the Working Capital Advance Balance), **(ii)** its liabilities under Generally Accepted Accounting Principles ("GAAP"), **(iii)** the "Estimated Contingent Liability Reserve" (defined in Art. 15) and **(iv)** the expected Direct Costs for the next month. On the other hand, again described generally, the Purchaser *must* distribute *all* of such excess.

The net effect of these cash reserve requirements is that all Net Proceeds will be distributed each month to DRMS and the Contractor except for increases in the cash reserve due to increases in GAAP liabilities, contingent liabilities or provisions for Direct Costs. If the required end of month cash reserve in the Operating Account is reduced due to reductions in GAAP liabilities, contingent liabilities or provisions for Direct Costs, the distributions that month will exceed Net Proceeds for the month by the amount of that reduction in the required cash balance.

Note that provisions relating to Seller Indirect Costs affect DRMS distributions. See Art. 16 for the complete provisions governing cash distributions.

L. WORKING CAPITAL ADVANCES AND REPAYMENTS

Direct Costs and Seller Indirect Costs, as noted, are payable directly out of the Purchaser's Gross Proceeds as such are available, or out of the Purchaser's available cash reserves. From time to time, however, and especially during the earlier portion of the Performance Period, the Contractor must advance funds to the Purchaser to pay for Direct Costs and Seller Indirect Costs. These advances are termed "Working Capital Advances." (See Art. 13.)

Working Capital Advances receive priority repayment directly out of available Gross Proceeds in the following month or months until fully repaid, but without interest thereon.

M. DISTRIBUTIONS AND PAYMENTS

The distribution of Net Proceeds made by the Purchaser to the Contractor is the source of return on the Contractor's investment of capital and expertise in setting up the Purchaser as an operational entity. The distribution of Net Proceeds to DRMS, along with the Contractor's Purchase Price, is the source of recovery enhancement for DRMS.

The Purchaser will pay to DRMS the Contractor's Purchase Price in accordance with the provisions of Art. 5. The Contractor is responsible for providing the Purchaser with the

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necessary funds for such purchases ("Purchase Advances," see Art. 14). **Note that the Contractor's Purchase Price is not a Direct Cost, and as such is borne solely by the Contractor and not by DRMS.**

The Purchaser must pay to DRMS eighty percent (80%) of all Net Proceeds (less any required increase in the cash reserve). The Purchaser must pay to Contractor twenty percent (20%) of all Net Proceeds (less any such increase in the cash reserve). (See Art. 16.)

The Contractor thus pays the Contractor's Purchase Price and receives 20% of all Net Proceeds. In this transactional structure, therefore, the Contractor's financial incentives are fully aligned with those of DRMS (and thereby with those of the taxpayers) to maximize the Net Proceeds recovered from the management and disposition of the Property.

N. EARLY CANCELLATION OPTION

Described generally, under this option either party may terminate the contract after twelve months, upon written notice, if the mandatory performance threshold is not exceeded.

The cancellation option threshold, termed the Benchmark Performance Ratio, is determined with reference to the trends and volatility of DRMS Acquisition Value, Proceeds and ROR data. It is set by formula relative to the DRMS Historical Gross ROR that is determined from DRMS sales data from recent years. The combinations of FSC and DEMIL Code selected for the cancellation option calculation are those that, in recent years, consistently are among those that account for 80% of Gross Proceeds relative to all pertinent combinations of FSC and DEMIL Code. (See Art. 2.)

O. PURCHASE ACCOUNT

The Purchaser must establish a Purchase Account for funding the Contractor's Purchase Price. (See Art. 14.) Described generally, the Contractor must transfer funds to the Purchase Account ("Purchase Advances") in amounts sufficient to enable the Purchaser to pay DRMS for Property when payment is due. (See Art. 5 and Art. 14). Moreover, when cash is available for distributions, the Purchaser must transfer Contractor Distributions into the Purchase Account as specified in Art. 14 to minimize the Purchase Advances required from the Contractor.

P. PAYMENT DEPOSIT

The Contractor must pay to DRMS within 10 days of the award of the contract a Payment Deposit (see Art. 5) totaling five hundred thousand dollars (\$500,000) (including the \$100,000 Bid Deposit required by the provisions of Art. 1). The Payment Deposit will be held by DRMS until the conclusion of the "Wind-Up" of the Purchaser (Art. 21) to secure DRMS claims against the Purchaser and/or Contractor for Material Breaches of the contract, including specifically late

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payment for Property. If the Purchaser fails to pay for Property when payment is due, DRMS may apply the funds in the Payment Deposit against the late payment and the Purchaser must "cure" this breach by replenishing the Payment Deposit to the level of \$500,000 plus 20% of the amount of the late payment. The \$500,000 amount of the Payment Deposit is estimated to be approximately equal to the Contractor's Purchase Price for an average six weeks flow of Property. At the conclusion of the Wind-Up, DRMS will use the Payment Deposit to offset the last Invoice and any excess will be refunded to the Contractor without interest and less the amount necessary to cover its claims, if any, against the Contractor.

Q. RETENTION FUND AND FINANCIAL GUARANTEE BOND

To ensure that DRMS is protected against the adverse financial effects of a Material Breach of the contract by either the Purchaser or the Contractor, the Contractor will be required to capitalize a source of security for DRMS claims. To this end, the Contractor will have the option of either providing a Financial Guarantee Bond at the inception of the contract or instituting a Retention Fund. (See Art. 15.)

The Financial Guarantee Bond must be in the amount of \$1million and issued for at least a full year at a time. DRMS must approve the form of the bond and the issuing surety.

As more completely described in Art. 15, if a Financial Guarantee Bond cannot be obtained or if it is terminated without a replacement, the contract provides for a Retention Fund as follows:

- 1) Once all of the Contractor's Working Capital Advances have been repaid and the cumulative amount of the Contractor Distribution Payments equals or exceeds the cumulative amount of Purchase Advances — i.e., once cumulative cashflow to the Contractor is positive — 10% of each month's Contractor Distribution Payment (net of certain adjustments) will be diverted into a Retention Fund held by DRMS.
- 2) Under most circumstances, the maximum amount in the Retention Fund will be \$500,000; the amount is increased to \$1 million if the Contractor enters insolvency proceedings.
- 3) At the end of the contract, DRMS will return the Retention Fund to the Contractor without interest and less the amount necessary to cover its claims, if any, against the Contractor. The Contractor may obtain the Retention Fund earlier only by providing a \$1 million Financial Guarantee Bond issued for the entirety of the remaining overall contract period and that is otherwise acceptable to DRMS.

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R. ABSENCE OF DRMS PRE-APPROVALS, AUTHORIZATIONS AND OPERATIONAL CONTROL

Subject to the conditions of this contract, full control of all aspects of operations rests with the Purchaser and Contractor. **There are no required pre-approvals or authorizations from DRMS.** The transaction is a sale transaction and title to the Property passes to the Purchaser upon its "Delivery" to the Purchaser. (See Art. 1, Art. 3.)

The Purchaser, however, will have to work effectively with DRMO personnel with respect to logistics, and both the Purchaser and the Contractor must interact with DRMS personnel with respect to financial reporting, compliance monitoring and, perhaps, dispute resolution (see Section P below). Nonetheless, **there are no requirements for including DRMS in any way in the Purchaser's operational decision-making.**

The contract does provide for the Purchaser to fulfill certain requirements related to compliance review and financial auditing in certain provisions including: accounting statements (see Art. 8), inventory control and asset tracking procedures (see Art. 8), maintaining adequate insurance coverage (see Art. 11), employee compensation (see Art. 7), returning demilitarization items (see Art. 7), dealing appropriately with hazardous materials (see Art. 7), complying with federal, state and local laws and regulations (see Art. 7), etc. The contract also contains certain provisions regarding the logistical interface with DRMS and its generators in Art. 3. Such requirements notwithstanding, **as long as the Purchaser and Contractor operate within the bounds of the contract, they will have full operational control.**

S. COMPLIANCE MONITORING AND DISPUTE RESOLUTION

While full operational control resides with the Purchaser and Contractor, DRMS will have the right under the contract to monitor performance in three ways. First, the Purchaser will be required to have audited financial statements and follow Generally Accepted Accounting Principles. (See Art. 8.) Second, DRMS will have the right to conduct (or contract for that service) Compliance Reviews of the Purchaser's general compliance with the terms of the contract. (See Art. 17.) Third, DRMS may conduct audits of the Purchaser. (See Art. 8.)

DRMS will have the option of conducting Compliance Reviews on a quarterly basis and the expectation should be that DRMS will exercise that option. The focus of a Compliance Review will be less with financial flows, which are the focus of the Purchaser's financial audits, and more on observance of contractual terms such as those concerned with Affiliate Transactions, Direct Costs, inventory control and asset tracking, revenue tracking, the Purchase Account, cash reserves and the ECLR. (See Art. 17.)

In the event that disputes arise relating to contract compliance, the contract requires participation in alternative dispute resolution and provides for a voluntary but binding dispute resolution mechanism. (See Art. 20.) Under this elective mechanism, a panel of three arbitrators — one chosen by the Contractor, one chosen by DRMS, and one jointly chosen by the Contractor

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and DRMS — will receive the arguments from both sides and resolve the dispute by majority decision. It is anticipated that this mechanism will minimize conflict and reduce the cost of resolving any disagreements that arise.

T. DELIVERY POINTS

The following outline presents certain background information relevant to logistics.

1. DRMOs, Depots and Warehouses

- a. There are currently approximately 71 DRMOs in CONUS that receive Property from generators. In addition, there is one DRMO each in Guam, Hawaii and Puerto Rico, and there are two in Alaska.
- b. DRMS is currently in the process of reducing its infrastructure. Thus, it is possible that further phasing out of the number of DRMOs would continue to occur over the Performance Period of the contract. Moreover, as described above, DRMS also receives Property from generators, and will refer it for sale to the Purchaser, at "Forward Receiving Sites." These are warehouses that are staffed either part-time or full-time by DRMS for receiving items from generators. The Purchaser will generally be permitted On-Site Processing of Property referred for sale at Forward Receiving Sites. Presently there are approximately 38 Forward Receiving Sites at which Property will be referred.
- c. The flow of Property in the Product Pool has generally been somewhat concentrated across DRMOs. For example, Tables II-2a, II-2b and the Addendum to Table II-2b(8) show the sale of items in the Product Pool by DRMO for fiscal 1999 and for fiscal 2000 through July.

- d. There are currently 21 DLA Depots in CONUS. One is slated to close under BRAC in June of 2001. All 21 Depots currently refer RCP Property for sale.
- e. As part of its infrastructure reduction and privatization initiatives, DRMS may, over the next few years, initiate a network of centralized warehouses (termed "DRMS Warehouses" in Part VI below) to receive and store items including the Property.

(8) There is no table in this IFB designated as "II-1"; thus, Table II-2 is the first data table in this Part II.

Table II-2a
CV-2 Product Pool
FY 1999 Results for Individual CONUS DRMOs
Ranked by FY 1999 Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items	Quantity	Unadjusted Acq. value (\$000s)	Gross Proceeds (\$000s)	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
1	SZCA	Stockton	Stockton	CA	N/A		2,958	\$ 86,518	\$ 2,640	5.42%	5.42%
2	S9WG	RCP - Oklahoma City	Oklahoma City	OK	N/A	5	218	\$ 192,334	\$ 1,826	3.75%	9.17%
3	SVEA	Mechanicsburg	Mechanicsburg	PA	N/A	3	3,560	\$ 43,989	\$ 1,723	3.54%	12.70%
4	SY6A	San Antonio	San Antonio	TX	N/A	14	745	\$ 212,407	\$ 1,590	3.26%	15.97%
5	SY5A	Texarkana	Hooks	TX	N/A	2	186	\$ 58,230	\$ 1,577	3.24%	19.20%
6	SWRA	Warner Robbins	Warner Robbins	GA	N/A	3	1,068	\$ 39,432	\$ 1,337	2.74%	21.95%
7	SVCA	Lakehurst	Lakehurst	NJ	N/A	3	133	\$ 24,502	\$ 1,331	2.73%	24.68%
8	S9WB	RCP - Jacksonville	Jacksonville	FL	N/A	5	110	\$ 81,614	\$ 1,317	2.70%	27.38%
9	SYUA	San Diego	Imperial Beach	CA	N/A	12	114	\$ 92,145	\$ 1,275	2.62%	30.00%
10	SYBA	Hill	Ogden	UT	N/A	5	452	\$ 104,835	\$ 1,138	2.34%	32.33%
11	S9WJ	RCP - San Antonio	San Antonio	TX	N/A	4	470	\$ 75,484	\$ 1,135	2.33%	34.66%
12	S9WF	RCP - Warner Robbins	Warner Robbins	GA	N/A	6	187	\$ 86,973	\$ 1,126	2.31%	36.97%
13	SVXA	Columbus, OH	Columbus, Oh	OH	N/A	6	613	\$ 49,161	\$ 1,112	2.28%	39.25%
14	SYMA	Barstow	Barstow	CA	N/A	2	264	\$ 16,040	\$ 1,035	2.12%	41.38%
15	SY3A	Oklahoma City	Oklahoma City	OK	N/A	9	358	\$ 190,709	\$ 1,025	2.10%	43.48%
16	S9WA	RCP - San Diego	San Diego	CA	N/A	4	58	\$ 111,623	\$ 973	2.00%	45.48%
17	SZ7A	Hood	Killeen	TX	N/A	6	129	\$ 26,306	\$ 927	1.90%	47.38%
18	SWMB	Albany	Albany	GA	Mar - 1999	0	1,345	\$ 14,707	\$ 866	1.78%	49.16%
19	SY4A	Riley	Fort Riley	KS	N/A	6	1,216	\$ 17,887	\$ 804	1.65%	50.81%
20	ST1A	Norfolk	Norfolk	VA	N/A	5	76	\$ 46,842	\$ 751	1.54%	52.35%
21	SXUE	Campbell	Clarksville	KY	N/A	4	128	\$ 12,194	\$ 722	1.48%	53.83%
22	S9WH	RCP - Hill	Hill	UT	N/A	2	51	\$ 199,855	\$ 648	1.33%	55.16%
23	SWBJ	Jackson	Columbia	SC	N/A	3	204	\$ 16,857	\$ 646	1.33%	56.49%
24	SZSA	Tucson	Tucson	AZ	N/A	2	28	\$ 52,604	\$ 634	1.30%	57.79%
25	SXGA	Jacksonville	Jacksonville	FL	N/A	2	120	\$ 21,113	\$ 629	1.29%	59.08%
26	SVEC	Letterkenny	Chambersburg	PA	N/A	2	134	\$ 71,563	\$ 606	1.24%	60.33%
27	SY6C	Corpus Christi	Corpus Christi	TX	N/A	2	34	\$ 18,061	\$ 562	1.15%	61.48%
28	ST4A	Richmond	Richmond	VA	N/A	6	581	\$ 19,415	\$ 533	1.09%	62.57%
29	SZPA	Lewis	Seattle	WA	N/A	5	96	\$ 27,740	\$ 523	1.07%	63.65%
30	S9WN	RCP - New Cumberland	New Cumberland	PA	N/A	3	456	\$ 19,696	\$ 515	1.06%	64.71%
31	SZLA	Kirtland	Albuquerque	NM	N/A	1	5	\$ 4,861	\$ 467	0.96%	65.66%
32	SZQJ	Jackson	Columbia	SC	N/A	1	84	\$ 10,329	\$ 461	0.95%	66.61%
33	SVKC	Scott	Belleville	IL	N/A	2	136	\$ 20,247	\$ 448	0.92%	67.53%
34	STWA	Meade	Baltimore	MD	N/A	10	90	\$ 34,416	\$ 425	0.87%	68.40%
35	S9WI	RCP - McClellan	McClellan	CA	N/A	3	45	\$ 48,626	\$ 419	0.86%	69.26%
36	SWBD	Bragg	Fayetteville	NC	N/A	2	90	\$ 8,919	\$ 409	0.84%	70.10%
37	SWBA	Cherry Point	Cherry Point	NC	Jun - 1999	1	18	\$ 52,541	\$ 384	0.79%	70.89%
38	SWMA	Benning	Columbus	GA	N/A	2	135	\$ 7,154	\$ 370	0.76%	71.65%
39	SY5C	Polk	Leesville	LA	N/A	3	66	\$ 12,407	\$ 368	0.76%	72.41%
40	SYTA	Port Hueneme	Port Hueneme	CA	N/A	9	48	\$ 24,527	\$ 356	0.73%	73.14%
41	SWEA	Anniston	Anniston	AL	N/A	2	172	\$ 5,379	\$ 352	0.72%	73.66%
42	SXLA	Patrick	Melbourne	FL	N/A	3	27	\$ 21,203	\$ 352	0.72%	74.58%

Table II-2a
CV-2 Product Pool
FY 1999 Results for Individual CONUS DRMOs
Ranked by FY 1999 Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items	Quantity	Unadjusted Acq. value (\$000s)	Gross Proceeds (\$000s)	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
43	ST1J	St. Julien's Creek	Portsmouth	VA	N/A	1	30	\$ 31,396	\$ 341	0.70%	75.28%
44	S9WS	RCP - Sharpe	French Camp	CA	N/A	3	100	\$ 9,486	\$ 337	0.69%	75.98%
45	SZOB	Bragg	Fayetteville	NC	N/A	2	61	\$ 6,746	\$ 331	0.68%	76.66%
46	SYCA	Colorado Springs	Colorado Springs	CO	N/A	6	58	\$ 15,649	\$ 323	0.66%	77.32%
47	SYKF	Offutt	Offutt	NE	N/A	2	63	\$ 8,155	\$ 315	0.65%	77.96%
48	SYTF	Vandenberg	Lompoc	CA	N/A	4	42	\$ 13,596	\$ 306	0.63%	78.59%
49	SZGA	McClellan	Sacramento	CA	Sep - 2000	8	142	\$ 83,663	\$ 299	0.61%	79.21%
50	SWRS	Stewart	Hinesville	GA	N/A	2	61	\$ 9,181	\$ 292	0.60%	79.81%
51	SXQK	Keesler	Biloxi	MS	N/A	2	146	\$ 6,946	\$ 279	0.57%	80.38%
52	S9WE	RPC - Norfolk	Norfolk	VA	N/A	5	50	\$ 13,958	\$ 278	0.57%	80.95%
53	SWBL	Lejeune	Jacksonville	NC	N/A	1	101	\$ 12,509	\$ 277	0.57%	81.52%
54	SVQA	Crane	Crane	IN	N/A	2	3,930	\$ 64,128	\$ 275	0.56%	82.08%
55	SVFA	Philadelphia	Philadelphia	PA	Jun - 1999	2	27	\$ 4,077	\$ 274	0.56%	82.85%
56	SVXS	Selfridge	Mt. Clements	MI	N/A	3	47	\$ 8,177	\$ 271	0.56%	83.20%
57	S9WM	RCP - Mechanicsburg	Mechanicsburg	PA	N/A	1	3,234	\$ 5,900	\$ 270	0.55%	83.76%
58	SXUA	Knox	Elizabethtown	KY	N/A	5	41	\$ 9,057	\$ 254	0.52%	84.28%
59	SYUK	North Island	San Diego	CA	N/A	5	65	\$ 28,046	\$ 247	0.51%	84.79%
60	SXQA	Eglin	Ft. Walton Beach	FL	N/A	2	18	\$ 7,157	\$ 245	0.50%	85.29%
61	SXGR	Roosevelts Roads	U.S.Naval Station	PR	N/A	1	13	\$ 4,686	\$ 242	0.50%	85.79%
62	SZAA	Holloman	Alamagordo	NM	N/A	2	28	\$ 6,893	\$ 241	0.49%	86.28%
63	SXMK	Keesler	Biloxi	MS	N/A	2	109	\$ 5,875	\$ 240	0.49%	86.77%
64	SVKW	Whiteman	Knob Noster	MO	N/A	2	24	\$ 6,657	\$ 233	0.48%	87.25%
65	SVKA	Rock Island	Rock Island	IL	N/A	3	36	\$ 7,106	\$ 230	0.47%	87.72%
66	STWC	Aberdeen	Aberdeen Proving Ground	MD	Sep - 1999	1	20	\$ 3,371	\$ 223	0.46%	88.18%
67	SZQA	Lejeune	Jacksonville	NC	N/A	1	70	\$ 7,331	\$ 197	0.40%	88.58%
68	SWEC	Huntsville	Huntsville	AL	N/A	5	58	\$ 12,620	\$ 196	0.40%	88.99%
69	SYUM	March	Riverside	CA	N/A	6	96	\$ 7,646	\$ 196	0.40%	89.39%
70	SVCT	Tobyhanna	Tobyhanna	PA	N/A	1	60	\$ 21,611	\$ 195	0.40%	89.79%
71	SVKG	Great Lakes	Great Lakes	IL	N/A	1	113	\$ 6,555	\$ 193	0.40%	90.19%

72	SVXP	Wright-Patterson	Dayton	OH	N/A	4	67	\$	7,745	\$	185	0.38%	90.57%
73	S9WD	RCP - Cherry	Cherry Point	NC	N/A	0	14	\$	8,360	\$	181	0.37%	90.94%
74	SXMR	Rucker	Ozark	AL	Mar - 1999	0	2	\$	4,660	\$	179	0.37%	91.31%
75	SY3D	Fort Sill	Lawton	OK	Sep - 1999	3	167	\$	6,126	\$	177	0.36%	91.67%
76	STHA	Portsmouth	Portsmouth	NH	N/A	1	19	\$	5,843	\$	170	0.35%	92.02%
77	SXVA	Cambell	Clarksville	KY	N/A	1	22	\$	3,746	\$	165	0.34%	92.36%
78	ST3A	Belvoir	Alexandria	VA	Jun - 1999	3	14	\$	7,271	\$	164	0.34%	92.69%
79	SVKT	Sparta	Sparta	WI	N/A	1	9	\$	3,882	\$	156	0.32%	93.01%
80	SXME	Eglin	Ft. Walton Beach	FL	N/A	3	17	\$	9,055	\$	155	0.32%	93.33%
81	SZCH	Travis	Fairfield	CA	Jun - 1999	1	25	\$	12,084	\$	154	0.32%	93.65%
82	STHG	Grolon	New London	CT	N/A	1	19	\$	6,258	\$	130	0.27%	93.91%
83	SYUE	EI Toro	East Irvine	CA	Mar - 1999	1	26	\$	4,529	\$	128	0.26%	94.18%
84	S9WQ	RCP - Tracy	Tracy	CA	N/A	1	145	\$	4,157	\$	127	0.26%	94.44%

15.2

Table II-2a
CV-2 Product Pool
FY 1999 Results for Individual CONUS DRMOs
Ranked by FY 1999 Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items	Quantity	Unadjusted Acq. value	Gross Proceeds	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
85	ST4B	Williamsburg	Williamsburg	VA	Jun - 1999	(000s) 2	(000s) 27	\$ 5,115	\$ 127	0.26%	94.70%
86	SWRF	Forest Park	Forest Park	GA	Mar - 1999	1	11	\$ 7,886	\$ 124	0.25%	94.95%
87	SY5L	Little Rock	Little Rock	AR	Mar - 1999	0	124	\$ 1,380	\$ 122	0.25%	95.20%
88	SYMN	Nellis	Las Vegas	NV	N/A	2	42	\$ 3,749	\$ 121	0.25%	95.45%
89	SXMA	Pensacola	Pensacola	FL	Jun - 1999	3	11	\$ 2,139	\$ 115	0.24%	95.69%
90	S9WL	RCP - Barstow	Barstow	CA	N/A	1	34	\$ 6,558	\$ 110	0.23%	95.91%
91	SZ7C	Dyess	Abilene	TX	N/A	1	19	\$ 3,094	\$ 107	0.22%	96.13%
92	SZQC	Cherry Point	Cherry Point	NC	Closed	0	13	\$ 4,641	\$ 105	0.21%	96.35%
93	SYKM	Minot	Minot	ND	N/A	1	16	\$ 2,115	\$ 99	0.20%	96.55%
94	SXQP	Pensacola	Pensacola	FL	Closed	1	6	\$ 3,191	\$ 98	0.20%	96.75%
95	SZTA	Luke	Glendale	AZ	Jun - 1999	0	10	\$ 6,473	\$ 88	0.18%	96.93%
96	S9WP	RCP - Richmond	Richmond	VA	N/A	1	58	\$ 3,264	\$ 86	0.18%	97.11%
97	SYKE	Great Falls	Great Falls	MT	N/A	1	16	\$ 1,235	\$ 85	0.17%	97.28%
98	S9WR	RCP - Red River	Texarkana	TX	N/A	0	33	\$ 2,678	\$ 82	0.17%	97.45%
99	STHR	Romulus	Romulus	NY	Sep - 2000	0	7	\$ 1,533	\$ 81	0.17%	97.61%
100	SXQR	Rucker	Ozark	AL	Closed	0	0	\$ 716	\$ 79	0.16%	97.78%
101	SYBC	Mountain Home	Mountain Home	ID	N/A	1	14	\$ 2,001	\$ 78	0.16%	97.94%
102	SXLM	Homestead	Homestead	FL	N/A	1	9	\$ 2,024	\$ 74	0.15%	98.09%
103	SXVK	Knox	Elizabethtown	KY	N/A	1	22	\$ 4,144	\$ 73	0.15%	98.24%
104	SYUP	Pendleton	Oceanside	CA	Jun - 1999	1	29	\$ 2,151	\$ 69	0.14%	98.38%
105	SZGS	Sierra	Herlong	CA	N/A	1	7	\$ 2,937	\$ 66	0.13%	98.52%
106	SYKA	Ellsworth	Rapid City	SD	N/A	1	20	\$ 1,007	\$ 60	0.12%	98.64%
107	SZPD	Fairchild	Spokane	WA	N/A	1	9	\$ 3,730	\$ 55	0.11%	98.75%
108	S9WU	RCP - Anniston	Anniston	AL	N/A	0	13	\$ 2,275	\$ 54	0.11%	98.87%
109	S9WV	RCP - Corpus Christi	Corpus Christi	TX	N/A	0	3	\$ 3,121	\$ 53	0.11%	98.97%
110	SZAK	Kirtland	Albuquerque	NM	N/A	1	27	\$ 2,136	\$ 50	0.10%	99.08%
111	SYME	Edwards	Rosamond	CA	Mar - 1999	0	2	\$ 1,139	\$ 47	0.10%	99.17%
112	SVKD	Duluth	Duluth	MN	N/A	1	24	\$ 2,376	\$ 47	0.10%	99.27%
113	SYKG	Grand Forks	Grand Forks	ND	Jun - 1999	1	5	\$ 1,922	\$ 46	0.09%	99.36%
114	S9WO	RCP - Columbus	Columbus	OH	N/A	1	14	\$ 1,466	\$ 39	0.08%	99.44%
115	SZ7D	Sheppard	Wichita Falls	TX	Mar - 1999	0	9	\$ 1,412	\$ 39	0.08%	99.52%
116	S9WK	RCP - Albany	Albany	GA	N/A	0	136	\$ 1,022	\$ 37	0.08%	99.60%
117	SZLB	Cannon	Clovis	NM	N/A	0	3	\$ 2,480	\$ 36	0.07%	99.67%
118	SZSN	Nellis	Las Vegas	NV	N/A	0	17	\$ 1,171	\$ 31	0.06%	99.74%
119	SVED	Drum	Fort Drum	NY	N/A	0	8	\$ 1,061	\$ 30	0.06%	99.80%
120	SZSS	Sierra	Herlong	CA	N/A	0	9	\$ 1,512	\$ 24	0.05%	99.85%
121	SXGP	Panama	Panama	FL	Nov - 1999	0	3	\$ 342	\$ 22	0.05%	99.89%
122	SXLT	Tampa	Tampa	FL	Mar - 1999	0	1	\$ 323	\$ 13	0.03%	99.92%
123	SYMD	Twenty-Nine Palms	Palm Springs	CA	Mar - 1999	0	2	\$ 369	\$ 12	0.02%	99.95%
124	SZSB	Huachuca	Huachuca	AZ	Mar - 1999	0	0	\$ 389	\$ 8	0.02%	99.96%
125	S9WC	RCP - Puget Sound	Bremerton	WA	N/A	0	9	\$ 1,737	\$ 7	0.01%	99.98%
126	SZAC	Cannon	Clovis	NM	N/A	0	0	\$ 2,227	\$ 6	0.01%	99.99%

15.3

Table II-2a
CV-2 Product Pool
FY 1999 Results for Individual CONUS DRMOs
Ranked by FY 1999 Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items	Quantity	Unadjusted Acq. value	Gross Proceeds	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
127	SZAB	Bliss	EI Paso	TX	Mar - 1999	0	0	\$ 101	\$ 4	0.01%	100.00%
128	S9WT	RCP - Tobyhanna	Tobyhanna	PA	N/A	0	0	\$ 321	\$ 2	0.00%	100.00%
Total						320	27,221	\$ 2,895,715	\$ 48,723	100.00%	

15.4

Table II-2b
CV-2 Product Pool
FY 2000* Results (10 Months Only) for Individual CONUS DRMOs
Ranked by FY 2000* Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items	Quantity	Unadjusted Acq. value	Gross Proceeds	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
1	S9WG	RCP - Oklahoma City	Oklahoma City	OK	N/A	5	646	\$ 141,811	\$ 1,903	5.64%	5.64%
2	SZQA	Lejeune	Jacksonville	NC	N/A	3	187	\$ 52,743	\$ 1,519	4.50%	10.14%
3	SVEA	Mechanicsburg	Mechanicsburg	PA	N/A	3	1,070	\$ 23,315	\$ 1,293	3.83%	13.98%
4	SY6A	San Antonio	San Antonio	TX	N/A	6	161	\$ 85,340	\$ 1,162	3.44%	17.42%
5	S9WA	RCP - San Diego	San Diego	CA	N/A	6	148	\$ 165,658	\$ 1,095	3.24%	20.67%
6	S9WJ	RCP - San Antonio	San Antonio	TX	N/A	5	558	\$ 52,551	\$ 1,036	3.07%	23.74%

7	SY4A	Riley	Fort Riley	KS	N/A	3	2,273 \$	29,318 \$	945	2.80%	26.54%
8	S9WB	RCP - Jacksonville	Jacksonville	FL	N/A	2	70 \$	57,997 \$	902	2.67%	29.21%
9	SZSA	Tucson	Tucson	AZ	N/A	0	9 \$	20,880 \$	902	2.67%	31.88%
10	S9WD	RCP - Cherry	Cherry Point	NC	N/A	1	56 \$	41,426 \$	859	2.55%	34.43%
11	SZCA	Stockton	Stockton	CA	N/A	7	972 \$	30,403 \$	779	2.31%	36.74%
12	S9WH	RCP - Hill	Hill	UT	N/A	5	371 \$	79,623 \$	746	2.21%	38.95%
13	S9WE	RPC - Norfolk	Forfolk	VA	N/A	6	214 \$	54,764 \$	721	2.14%	41.09%
14	SY5A	Texarkana	Hooks	TX	N/A	1	214 \$	14,976 \$	701	2.08%	43.17%
15	S9WF	RCP - Warner Robbins	Warner Robbins	GA	N/A	4	114 \$	43,567 \$	686	2.03%	45.20%
16	SYUA	San Diego	Imperial Beach	CA	N/A	6	111 \$	29,332 \$	663	1.97%	47.17%
17	SWRA	Warner Robbins	Warner Robbins	GA	N/A	2	1,508 \$	44,239 \$	629	1.87%	49.03%
18	S9WS	RCP - Sharpe	French Camp	CA	N/A	7	98 \$	28,512 \$	626	1.86%	50.89%
19	SY3A	Oklahoma City	Oklahoma City	OK	N/A	6	241 \$	57,635 \$	604	1.79%	52.68%
20	SZQJ	Jackson	Columbia	SC	N/A	2	105 \$	13,999 \$	554	1.64%	54.32%
21	SY6C	Corpus Christi	Corpus Christi	TX	N/A	1	14 \$	24,761 \$	522	1.55%	55.87%
22	SYMA	Barstow	Barstow	CA	N/A	1	73 \$	21,704 \$	498	1.48%	57.34%
23	STWA	Meade	Baltimore	MD	N/A	5	55 \$	18,869 \$	486	1.44%	58.79%
24	SXQA	Eglin	Ft. Walton Beach	FL	N/A	4	19 \$	16,847 \$	486	1.44%	60.23%
25	SXVA	Cambell	Clarksville	KY	N/A	3	92 \$	8,135 \$	434	1.29%	61.51%
26	SVXA	Columbus, OH	Columbus, Oh	OH	N/A	2	205 \$	10,786 \$	434	1.29%	62.80%
27	SZQB	Bragg	Fayetteville	NC	N/A	2	199 \$	13,153 \$	409	1.21%	64.01%
28	SWMA	Benning	Columbus	GA	N/A	1	112 \$	6,257 \$	409	1.21%	65.23%
29	SYBA	Hill	Ogden	UT	N/A	5	231 \$	51,333 \$	404	1.20%	66.42%
30	SZPA	Lewis	Seattle	WA	N/A	2	97 \$	13,093 \$	403	1.20%	67.62%
31	SXGA	Jacksonville	Jacksonville	FL	N/A	1	49 \$	11,275 \$	382	1.13%	68.75%
32	SY5C	Polk	Leesville	LA	N/A	2	63 \$	11,661 \$	355	1.05%	69.81%
33	SZ7A	Hood	Killeen	TX	N/A	3	76 \$	13,510 \$	354	1.05%	70.86%
34	ST1A	Norfolk	Norfolk	VA	N/A	2	69 \$	17,443 \$	327	0.97%	71.82%
35	S9WQ	RCP - Tracy	Tracy	CA	N/A	3	252 \$	7,246 \$	326	0.97%	72.79%
36	S9WR	RCP - Red River	Texarkana	TX	N/A	1	70 \$	17,116 \$	323	0.96%	73.75%
37	SVCA	Lakehurst	Lakehurst	NJ	N/A	1	30 \$	11,084 \$	322	0.96%	74.70%
38	SVKC	Scott	Belleville	IL	N/A	2	106 \$	13,154 \$	321	0.95%	75.66%
39	SXVK	Knox	Elizabethtown	KY	N/A	2	44 \$	6,850 \$	296	0.88%	76.53%
40	S9WU	RCP - Anniston	Anniston	AL	N/A	1	65 \$	13,678 \$	294	0.87%	77.41%
41	S9WL	RCP - Barstow	Barstow	CA	N/A	2	45 \$	25,968 \$	291	0.86%	78.27%
42	STHA	Portsmouth	Portsmouth	NH	N/A	1	12 \$	5,882 \$	287	0.85%	79.12%

* Data for FY 2000 are limited to 10 months through July and are not annualized.

15.5

Table II-2b
CV-2 Product Pool
FY 2000* Results (10 Months Only) for Individual CONUS DRMOs
Ranked by FY 2000* Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items (000s)	Quantity (000s)	Unadjusted Acq. value (\$000s)	Gross Proceeds (\$000s)	% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State							
43	SVCT	Tobyhanna	Tobyhanna	PA	N/A	1	11	12,059	287	0.85%	79.97%
44	S9WM	RCP - Mechanicsburg	Mechanicsburg	PA	N/A	1	5,850	6,559	283	0.84%	80.81%
45	SXQK	Keesler	Biloxi	MS	N/A	1	136	5,940	267	0.79%	81.60%
46	SYCA	Colorado Springs	Colorado Springs	CO	N/A	3	40	9,903	263	0.78%	82.38%
47	SWRS	Stewart	Hinesville	GA	N/A	1	77	7,943	262	0.78%	83.16%
48	SWEA	Anniston	Anniston	AL	N/A	1	194	3,730	261	0.77%	83.93%
49	SYTF	Vandenberg	Lompoc	CA	N/A	2	42	11,669	248	0.74%	84.67%
50	SYUM	March	Riverside	CA	N/A	3	105	9,533	245	0.73%	85.39%
51	ST4A	Richmond	Richmond	VA	N/A	1	181	6,967	243	0.72%	86.12%
52	ST1J	St. Julien's Creek	Portsmouth	VA	N/A	1	15	6,233	237	0.70%	86.82%
53	SVEC	Letterkenny	Chambersburg	PA	N/A	1	13	5,448	236	0.70%	87.52%
54	S9WN	RCP - New Cumberland	New Cumberland	PA	N/A	1	217	12,248	228	0.67%	88.19%
55	S9WP	RCP - Richmond	Richmond	VA	N/A	3	268	8,284	223	0.66%	88.85%
56	SZGA	McClellan	Sacramento	CA	Sep - 2000	3	1,799	27,251	218	0.65%	89.50%
57	S9WV	RCP - Corpus Christi	Corpus Christi	TX	N/A	1	16	6,456	197	0.58%	90.08%
58	SVKA	Rock Island	Rock Island	IL	N/A	1	192	4,897	190	0.56%	90.65%
59	SVQA	Crane	Crane	IN	N/A	1	28	6,324	184	0.55%	91.19%
60	SXLA	Patrick	Melbourne	FL	N/A	1	12	3,652	183	0.54%	91.74%
61	SVKG	Great Lakes	Great Lakes	IL	N/A	1	105	5,456	171	0.51%	92.24%
62	SVXS	Selfridge	Mt. Clements	MI	N/A	1	14	3,908	162	0.48%	92.72%
63	S9WK	RCP - Albany	Albany	GA	N/A	0	1,104	4,194	152	0.45%	93.17%
64	SVXP	Wright-Patterson	Dayton	OH	N/A	4	142	8,895	152	0.45%	93.62%
65	SVKW	Whiteman	Knob Noster	MO	N/A	1	16	5,075	143	0.42%	94.05%
66	SYUK	North Island	San Diego	CA	N/A	3	63	28,462	142	0.42%	94.47%
67	S9WI	RCP - McClellan	McClellan	CA	N/A	2	53	23,668	141	0.42%	94.88%
68	SVKT	Sparta	Sparta	WI	N/A	0	11	1,740	132	0.39%	95.27%
69	SYTA	Port Hueneme	Port Hueneme	CA	N/A	2	85	5,665	131	0.39%	95.66%
70	STHG	Groton	New London	CT	N/A	0	8	5,056	127	0.38%	96.04%
71	SYKF	Offutt	Offutt	NE	N/A	1	39	5,595	127	0.38%	96.42%
72	SZAA	Holloman	Alamagordo	NM	N/A	0	13	3,768	126	0.37%	96.79%
73	SZ7C	Dyess	Abilene	TX	N/A	1	39	14,715	125	0.37%	97.16%
74	S9WO	RCP - Columbus	Columbus	OH	N/A	1	118	2,774	116	0.34%	97.51%
75	SWEC	Huntsville	Huntsville	AL	N/A	1	13	3,819	113	0.33%	97.84%
76	SVKD	Duluth	Duluth	MN	N/A	1	41	1,821	96	0.28%	98.13%
77	SZAK	Kirtland	Albuquerque	NM	N/A	1	6	3,626	94	0.28%	98.40%
78	SYKM	Minot	Minot	ND	N/A	1	12	2,077	87	0.26%	98.66%
79	S9WC	RCP - Pugat Sound	Bremerton	WA	N/A	1	12	6,201	86	0.26%	98.92%
80	STHR	Romulus	Romulus	NY	Sep - 2000	0	0	1,138	71	0.21%	99.13%
81	SZPD	Fairchild	Spokane	WA	N/A	0	5	1,792	66	0.19%	99.32%
82	SYKE	Great Falls	Great Falls	MT	N/A	0	6	1,134	60	0.18%	99.50%
83	SZSN	Nellis	Las Vegas	NV	N/A	0	19	1,534	40	0.12%	99.61%
84	SYBC	Mountain Home	Mountain Home	ID	N/A	0	4	933	30	0.09%	99.70%

* Data for FY 2000 are limited to 10 months through July and are not annualized.

15.6

Table II-2b
CV-2 Product Pool
FY 2000* Results (10 Months Only) for Individual CONUS DRMOs
Ranked by FY 2000* Gross Proceeds
(All amounts in Thousands)

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items (000s)	Quantity (000s)	Unadjusted		Gross		% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State				Acq. value (\$000s)	Proceeds (\$000s)				
85	SXLM	Homestead	Homestead	FL	N/A	0	5	\$	506	\$	23	0.07%	99.77%
86	SYKA	Ellisworth	Rapid City	SD	N/A	0	6	\$	723	\$	22	0.07%	99.84%
87	S9WT	RCP - Tobyhanna	Tobyhanna	PA	N/A	0	4	\$	6,354	\$	20	0.06%	99.90%
88	SZSS	Sierra	Herlong	CA	N/A	0	2	\$	589	\$	19	0.06%	99.96%
89	SVED	Drum	Fort Drum	NY	N/A	0	0	\$	261	\$	15	0.04%	100.00%
Total						180	22,244	\$	1,715,386	\$	33,734	100.00%	

* Data for FY 2000 are limited to 10 months through July and are not annualized.

15.7

**Table II-2b (Addendum)
CV-2 Product Pool*
FY 2000** Results for Individual DRMOs
Alaska, Guam, Hawaii, and Puerto Rico
Ranked by FY 2000** Gross Proceeds
(All amounts in Thousands)**

Rank by Gross Proceeds	DRMO Identifier (RIC + RIC Suffix)	DRMO Name	DRMO Location		Closure Date	Line Items (000s)	Quantity (000s)	Unadjusted		Gross		% of CONUS Gross Proceeds	Cumulative % of CONUS Gross Proceeds
			City	State				Acq. value (\$000s)	Proceeds (\$000s)				
1	SSAA	Hawaii	—	HI	N/A	19	430	\$	44,704	\$	947	43.36%	43.36%
2	SZVA	Anchorage	Anchorage	AK	N/A	2	82	\$	7,996	\$	360	16.49%	59.84%
3	SXGR	Roosevelt Roads	—	PR	N/A	1	20	\$	6,399	\$	349	15.99%	75.83%
4	SSBA	Guam	—	Guam	N/A	5	92	\$	8,837	\$	326	14.94%	90.77%
5	SZVF	Fairbanks	Fairbanks	AK	N/A	2	40	\$	4,618	\$	201	9.23%	100.00%
Total						28	664	\$	72,554	\$	2,183	100.00%	

* DEMIL "A" Items assigned to CV-1 at CONUS locations will be referred for sale under this CV-2 contract at these non-CONUS locations, and are included in this table.

** Data for FY 2000 are limited to 10 months through July.

15.8

2 Generators

- a. Every military and reserve activity is a potential "generator" of surplus items. Because the number of active generators is always in flux, the exact number cannot be known with precision. While the vast majority of generators are military related, there are some federal agencies that turn property in to DRMS as well.
- b. DODAAC (DoD activity address code) numbers are available for every Line Item. (A "Line Item" is an object or group of objects, all with the same LSN or NSN, turned in together by a generator and identified on a single Disposal Turn-In Document ("DTTD"), a Department of Defense form. A Line Item will have a quantity or units in excess of one if more than one such object, all with the same LSN or NSN, are turned in on a single DTID.) The DODAAC number essentially refers to the supply officer in control of the item at the point the Defense Turn-In Document (DTID) number is assigned (the DODAAC number is the first six (6) digits of the DTTD number).
- c. Any given military base will generally have a number of DODAACs directly associated with the base and many more generally referring it property. Any given DRMO will service the base generators as well as all other generators in its area. DRMOs are generally located so as to be near significant amounts of turn-ins of property.
- d. In 1996, generators referred surplus property with approximately 20,000 different DODAAC numbers.
- e. A recent sample of data on the current inventory reveals a significant concentration by DODAAC number per DRMO.

3 Property Flows

- a. DRMS estimates that it sells approximately 45% of its Product Pool items through DRMOs.
- b. Approximately 45% of Product Pool items are sold through the RCP program of direct (blind) sales from DLA Depots.
- c. Approximately 10% of Product Pool items are sold "in place" at generator sites.

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- d. DRMS data sources indicate that, in fiscal 1998, approximately 46% of all DRMS Gross Proceeds for items in the Product Pool derived from the top 20 DRMOs and approximately 62% from the top 40 DRMOs.
- e. DRMS expects over time, as part of its infrastructure reduction and privatization initiatives, that items including the Property will increasingly be received and processed "in place," at Forward Receiving Sites or in privately contracted DRMS Warehouses, or transported by the Government, either to a facility operated by a CV buyer or directly to a CV re-sale buyer.

See Art. 3 for more completely specified contractual provisions relating to logistics. Table II-3 on the next page, Summary of Logistics Provisions, summarizes certain provisions set forth in Art. 3 that are pertinent to logistics.

U. LOGISTICS

Table II-3 details many pertinent provisions of Art. 3 that govern logistical arrangements for handling the flow of Property. These provisions are virtually identical to those governing the CV-1 transaction. Except as otherwise provided, all of the Purchaser’s “logistics costs”- the costs incurred by the Purchaser for moving, storing, packing and removing Property - are Direct Costs.

Most Property is turned in to DRMS by generators at a DRMO(9) that is not a Restricted Access Facility. DRMS will provide to the Purchaser without charge certain dedicated indoor and outdoor storage space (Purchaser’s Dedicated Storage) for the Purchaser’s exclusive use at most DRMOs, and the Purchaser’s personnel will have access to that space at least two full days per week. In most cases DRMS will commingle CV-1 and CV-2 items for R/T/D, then bring the Property to the Purchaser’s Dedicated Storage as it is referred for sale to the Purchaser. DRMS may, however, elect instead to segregate the CV-1 and CV-2 items upon receipt and to conduct Segregated R/T/D. There is no fixed deadline for removing Property from the DRMO, but the Purchaser must accomplish removal as necessary to accommodate the inflow of Property. DRMS will neither pack nor load Property for re-sale buyers.

The Purchaser may use and store its materials handling equipment in Purchaser’s Dedicated Storage, and, subject to applicable law and host installation regulations, the Purchaser may utilize without charge such government owned materials handling equipment as is available at a particular DRMO or other Delivery Point. The Purchaser may not, however, use or store its own materials handling equipment at DLA Depots, Special Situation Locations and Restricted Access Facilities.

(9) In the future DRMS may also operate “DRMS Warehouses,” warehousing facilities operated by or on behalf of DRMS that perform functions similar to those presently performed at DRMOs. As yet DRMS neither operates nor is planning to operate any DRMS Warehouses, but that could change during the term of this sale contract.

**Table II-3
SUMMARY OF LOGISTICS PROVISIONS**

I. DRMOs and DRMS Warehouses other than Restricted Access Facilities

	<u>Summary</u>	<u>Citation(1)</u>
1. Minimum Property Proportion	Purchaser accepts Delivery of Property at 15 Initial Delivery Points within five months of post-award conference, and at all Delivery Points within eight months. Purchaser and DRMS may agree to a different schedule.	2(C)(1), 2(C)(2), 2(C)(3)
2. “Purchaser’s Dedicated Storage”	Purchase initially allocated a proportion of each site’s covered & outdoor storage; DRMS and Purchaser adjust space allocations over time to accommodate relative work flows. If storage cannot be provided other than temporarily, site is deemed a Restricted Access Facility.	3(B)(1), 4(A)(2)
3. Minimum Access for Purchaser	Two 8-hour Business Days per week. If DRMS cannot provide such access other than temporarily, site is deemed a Restricted Access Facility.	4(A)(1), 4(A)(2)
4. “Delivery” (transfer to Purchaser of control over and title to the Property)	If R/T/D is Commingled, DRMS moves Property to Purchaser’s Dedicated Storage; if R/T/D is Segregated, Delivery may be in place, and Purchaser moves Property to Purchaser’s Dedicated Storage as required to free space for DRMO operations. In special circumstances DRMS and Purchaser adopt necessary special procedures.	3(C)(1)
5. Materials Handling Equipment (subject to applicable law and host installation regulations)		
a. Purchaser’s	Storage and usage permitted	4(A)(1)
b. Government Furnished Equipment	Usage permitted of available equipment	4(A)(1)
6. “On-Site Processing”	Permitted	4(D)
7. Removal - Purchaser’s Conveyance		
a. Timing(2)	As reasonably necessary to accommodate inflow of Property(3),(6)	4(C)(1)(a)
b. Packing	Purchaser / DC(3)	4(C)(2)(a)
c. Loading	Purchaser / DC(4)	4(C)(2)(a)
d. Shipping	Purchaser / DC	4(F)(1)
8. Removal - Re-sale Buyers’ Conveyances		
a. Timing(3)	As reasonably necessary to accommodate inflow of Property(5)	4(C)(1)(a)

b. Packing	Purchaser / DC	4(C)(2)(a)
c. Loading	Purchaser / DC	4(C)(2)(a)
d. Shipping	NA	—

(1) All citations are to Sections of Article Three of Part VII, IFB, unless otherwise indicated.

(2) Except in special circumstances. 4(C)(1).

(3) DC: Direct Costs

(4) DRMS will “tailgate” load at no charge to Purchaser if Personnel are available. 4(C)(2)(a).

(5) Except in special circumstances. 4(C)(1).

17.1

**Table II-3
SUMMARY OF LOGISTICS PROVISIONS**

II. RCP Property at DLA Depots

	Summary	Cite
1. Minimum Property Proportion	None during Phase-In Period except as requested by Purchaser and as DRMS can reasonably accommodate such request; 100% thereafter.	2(C)(2), 2(C)(3)
2. Storage Space for Purchaser	None	3(B)(4)
3. Minimum Access for Purchaser	None; DRMS Customer Liaison arranges reasonable access for removal, if requested by DRM unless DRMS permit On-Site Processing.	2(B)(3), 4(A)(3), 4(C)(2)(b), 4(E)
4. “Delivery”	Upon removal	3(C)(2)
5. Materials Handling Equipment (subject to applicable law and host Installation regulations)		
a. Purchaser’s	None	4(A)(3)
b. Government Furnished Equipment	DRMS to provide as available	4(A)(3)
6. On-Site Processing	Permitted at DRMS’s option	4(E)
7. Removal - Purchaser’s Conveyance		
a. Timing	N/A: Depot packs and ships	4(C)(2)(b)
b. Packing	Depot / NC	4(C)(2)(b)
c. Loading	Depot / NC	4(C)(2)(b)
d. Shipping	Depot / DC	4(C)(2)(b)
8. Removal - Re-sale Buyers’ Conveyances	None	4(B)
a. Timing		
b. Packing		
c. Loading		
d. Shipping		

17.2

**Table II-3
SUMMARY OF LOGISTICS PROVISIONS**

III. Special Situation, Locations, Restricted Access Facilities, Non-RCP Depot Property

Summary

Cite

1. Minimum Property Proportion	None during Phase-In Period except as requested by Purchaser and as DRMS can reasonably accommodate such request; 100% thereafter.	2(C)(2), 2(C)(3)
2. Storage Space for Purchaser	None	3(B)(4)
3. Minimum Access for Purchaser	DRMS Customer Liaison arranges reasonable access for removal if DRMS requests.	2(B)(3), 4(A)(3)
4. "Delivery"	Upon removal	3(C)(2)
5. Materials Handling Equipment (subject to applicable law and host installation regulations)		
a. Purchaser's	None	4(A)(3)
b. Government Furnished Equipment	DRMS to provide as available	4(A)(3)
6. On-Site Processing	DRMS's option	4(E)
7. Removal - Purchaser's Conveyance	Unless On-Site Processing is permitted:	
a. Timing	30 days after submission of Property Referral List(6),(9)	4(C)(1)(b)
b. Packing	DRMS / NC(7),(8)	4(C)(2)(c)
c. Loading	DRMS / NC(9),(10)	4(C)(2)(c)
d. Shipping	Purchaser / SIC(9)	4(F)(3)
8. Removal - Re-sale Buyers' Conveyances	None	4(B), 4(C)(2) (c)
a. Timing		
b. Packing		
c. Loading		
d. Shipping		

(6) DRMS may direct earlier removal if reasonably required in the circumstances. 4(C)(1)(b), 4(C)(1)(c).

(7) DRMS Customer Liaison notifies Purchaser whether to pack and/or load the Property to enable removal. If Initial attempt at removal is unsuccessful because Property is inadequately packed or loading is unexpectedly unavailable, Purchaser will return in 30 days with equipment necessary to effect removal. 4(C)(1)(b).

(8) If packing or loading performed by Purchaser at DRMS's request, actual and minimum reasonable costs are treated as Seller Indirect Costs. 4(C)(2)(c).

(9) SIC: Seller Indirect Costs

17.3

Table II-3
SUMMARY OF LOGISTICS PROVISIONS

IV. BASE CLOSURES

Summary	Citation
Several Base Closures are presently scheduled during the prospective Performance Period. Base Closures often generate substantially increased volumes of surplus items that must be processed on accelerated schedules. DRMS and Purchaser shall cooperate and institute special procedures as reasonably necessary to process and re-sell Property efficiently.	4(G)(1), 4(G)(2)

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Purchaser is permitted to process the Property for re-sale within Purchaser's Dedicated-Storage. Purchaser may permit re-sale customers to inspect the Property there, but a representative of the Purchaser must accompany customers at all times. DRMS must approve any on-site auction or spot bidding conducted on government property.

DRMS expects that RCP Depots will generate a substantial volume of Property. Art 3 specifies that government personnel at RCP Depots shall pack and ship RCP Property to the Purchaser and shall charge the Purchaser the DLA shipping charge that is then applicable. Such shipping charges are Direct Costs.

There also may be Property referred for sale at Special Situation Locations and Restricted Access Facilities. Described very generally and subject to certain limitations and conditions, and as discussed more completely in Section II.J above, the actual and minimum reasonable costs incurred by the Purchaser for the packing, loading and removal of Property from such locations will be deducted from Distribution Payments to DRMS as Seller Indirect Costs unless DRMS arranges for the Purchaser to conduct On-Site Processing of such items. On-Site Processing means that, subject to certain conditions and described very generally, that the Purchaser and its prospective re-sale buyers are provided access to the Property to enable its re-sale without first moving the Property to a DRMO or other location.

The Government also has the option of shipping the Property (via a contract carrier) to the Purchaser. Such shipping charges will be paid directly by the Government. The Government and the Purchaser may also make arrangements for a carrier to transport Property directly from a government-controlled facility to the Purchaser's re-sale buyer, with the shipping charges allocated as the Purchaser and DRMS agree.

The Purchaser is responsible to DRMS for any damage that is caused to any government equipment or facility or DRMS Warehouse that arises out of the negligence of the Purchaser, its vendors or re-sale buyers, and Purchaser must clean up any spills of hazardous materials on a government facility.

V. DEMIL B AND Q PROPERTY

Many of the items in the Product Pool are subject to trade security controls (i.e., export restrictions) because they contain sensitive technology. These fall into one of two categories. One is Commerce Control List Items ("CCLI") that are designated by the Department of Commerce pursuant to the provisions of the Export Administration Act of 1979, Executive Order 12924 and regulations promulgated thereunder and that have a DEMIL Code of "Q." The other is Munitions List Items ("MLI") that are designated by the Department of State pursuant to the provisions of the Arms Export Control Act and implementing regulations and that have a DEMIL Code of "B."

Described generally, DEMIL "B" and "Q" items need not be demilitarized before sale, but export of these items requires an export license issued by the Department of State or the

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Department of Commerce. DRMS presently sells such items within CONUS pursuant to the procedures described below. As is also described below and as is set forth in Art. 7, the Purchaser will also be required to comply with certain trade security control procedures. In addition, the Purchaser will be required to comply with any new trade security control requirements that may be mandated during the Performance Period. Such new requirements may impose new, higher costs upon the Purchaser. Prospective offerors should weigh this risk factor when formulating their bids.

Described very generally, pursuant to current DRMS procedures the winning bidder for DEMIL "B" and/or "Q" items is required before award of a sale contract (i) to be cleared by the DLA Trade Security Controls Office as a buyer of DEMIL "B" and/or "Q" items (clearances must be renewed every five years), and (ii) to submit to the Sales Contracting Officer (SCO) a properly completed "End-Use Certificate" (or "EUC") in the form of either DRMS Form 2 or DLA Form 1822 (copies of these forms are attached as Attachment VI.5.B.). Presently DRMS's buyers of trade security controlled property are permitted to elect which of these forms to use, and almost all such buyers choose the DRMS Form 2. Described generally, both forms of the EUC require the prospective re-sale buyer to identify itself and the subject property, to describe the nature of the buyer's business, to specify the expected disposition and specific end-use of the subject property, to acknowledge the applicability of the pertinent trade security export controls, and to certify that the information on the EUC is true.

DLA Form 1822 requires certain additional and more burdensome compliance procedures than does the DRMS Form 2. Described very generally, under these procedures each successive re-sale buyer must also complete a Form 1822; the original buyer must obtain SCO approval before re-selling any trade security controlled item; and the original buyer must document that it has notified each re-sale buyer of pertinent export prohibitions. As was noted, however, use of Form 1822 is presently entirely elective.

Prior to award of this contract, the Purchaser will be required to obtain a trade security control clearance and to submit to the SCO a properly completed EUC. The clearance will be effective for a five year period unless the information in the EUC is materially changed (i.e., change of Purchaser's officers, change of physical address, etc.). The clearance investigation determines that the entity is who it claims to be, doing business at the name and location claimed and that there are no disqualifying factors present (i.e., convictions for illegal export of military technology, debarment by a Government activity, etc.). All secondary purchasers of MLI/CCLI from this contract will undergo a similar clearance.

Re-sale trade security control procedures applicable to the Purchaser will be generally as follows. The Purchaser will be required to notify prospective buyers in catalogs and resale documents of the necessity to comply with TSC requirements and export controls. The Purchaser will be required to obtain a properly completed EUC from the prospective re-sale buyer of each lot (or group of lots at a single re-sale event) of DEMIL B and Q items before releasing such items to the prospective re-sale buyer. Upon receipt of the properly completed EUC, the Purchaser must confirm with the SCO that the prospective re-sale buyer is currently cleared to purchase export controlled items. If so, the subject Property can be released to the

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buyer immediately. If not, the buyer must submit such information to the DLA Trade Security Controls enforcement office as may be required for the buyer to be cleared before the buyer can receive any export controlled items. The DLA Trade Security Controls Office is the clearance authority and the determining authority relative to the proper completeness of EUCs.

For the vast majority of export controlled items, the Purchaser's re-sale buyer is under no obligation to submit any follow-up documentation after the original purchase. That is, the original re-sale buyer is not required to update or correct its EUC if its proposed end-use or other disposition changes. The Purchaser's export control compliance responsibilities will generally be limited accordingly to obtaining a properly completed EUC, releasing property to a buyer only after confirming that the buyer is cleared, and maintaining compliance records. In very rare cases, however (and there has been none for over a year), the re-sale buyer will be required to update its EUC prior to effecting any change of fact or intention compared to the statements on the original EUC and to contact DRMS directly to obtain the SCO's written approval before effecting any such change. The only additional burden on the Purchaser in such cases is the minimal cost of forwarding the original compliance file to the SCO upon request.

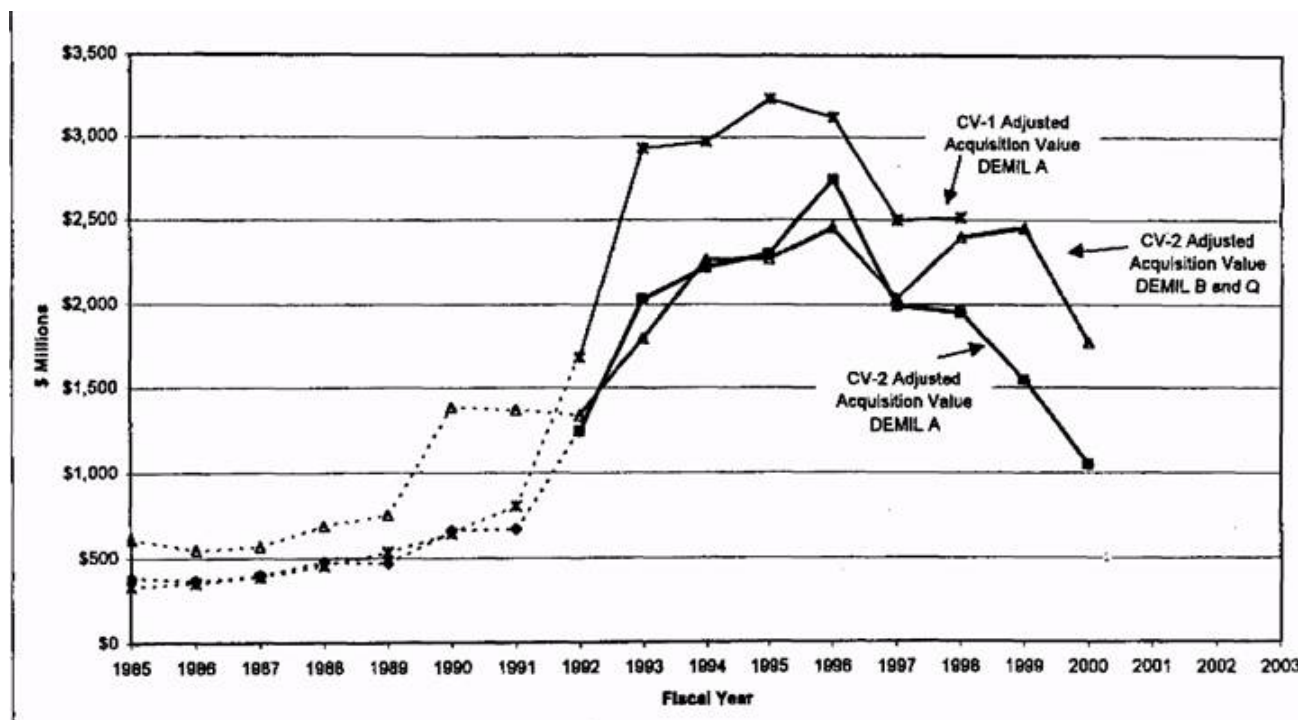
In recent years a significant portion of the Gross Proceeds obtained by DRMS from the sale of items in the Product Pool was associated with items with DEMIL Codes of "B" or "Q" rather than "A" (ranging from, for example, about 15% "B" or "Q" in FY 1992 to about 50% through July of FY 2000). The Adjusted Gross ROR for both CV-1 and CV-2 DEMIL "A" items averaged approximately 2.0% over these years, and together the Adjusted Gross ROR for DEMIL "B" and "Q" items averaged approximately only .75%. Figures II-6 and II-7 present Adjusted Acquisition Value and Gross Proceeds, respectively, for CV-1 and CV-2 DEMIL Code "A" items and DEMIL Code "B" and "Q" items combined for fiscal years 1985 - 2000 (through July). Figure II-8 presents the corresponding data for Adjusted Gross ROR.

Prospective offerors should note, inter alia, that in recent years the historically lower-ROR DEMIL B and Q items in the CV-2 product Pool have represented an increasing proportion of the Gross Proceeds attributable to CV-2 items. This trend may be a factor that, if it continues, will increase CV-2 operating costs. As noted elsewhere in this IFB, over the same time period Gross Proceeds for CV-2 items (and CV-1) have been declining. If both trends continue, operating CV-2 will become increasingly less profitable, and bidders should take this risk into account when formulating their bids.

W. THE FIRST TWO YEARS OF OPERATIONS OF CV-1

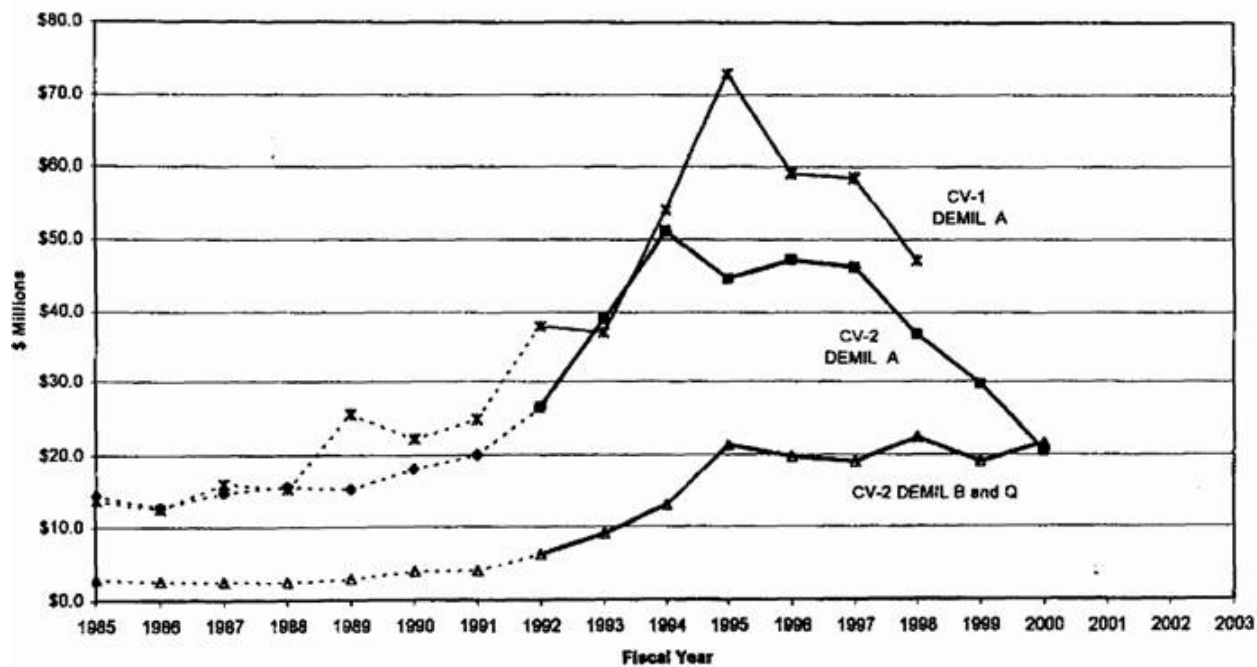
On July 14, 1998, DRMS awarded the "CV-1" proceeds sharing sale contract to Levy / Latham LLC (the CV-1 "Contractor"), which formed Levy / Latham Global LLC ("LLG") to be the CV-1 "Purchaser." LLG received its initial deliveries of property a little over two years ago, in September of 1998. In all instances LLG has paid DRMS on time for invoices for property purchases, the results of financial and compliance audits have been satisfactory to DRMS, and LLG has complied with its contractual obligations in terms of reporting and in all other respects.

Figure II-6
CONUS Product Pool Adjusted Acquisition Values
DEMIL A and DEMIL B/Q
Fiscal Years 1985-2000*



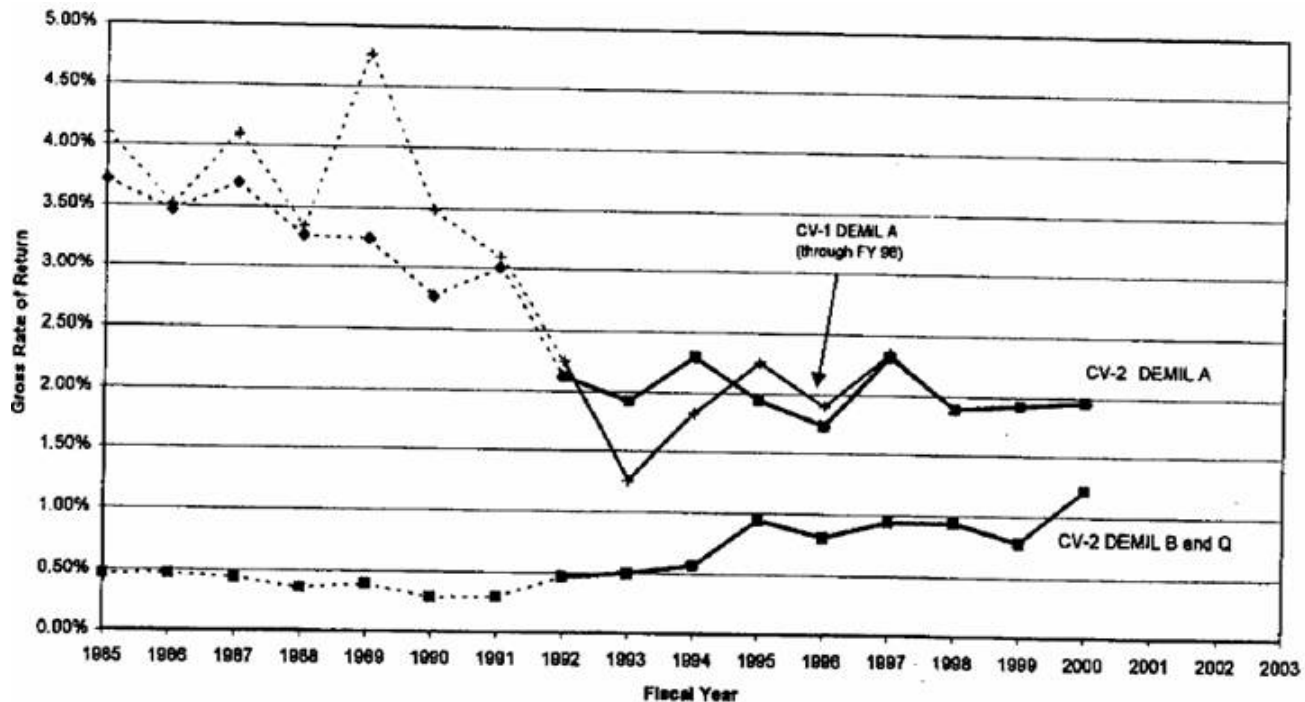
* Data for FY 2000 are annualized based on 10 months.

Figure II-7
CONUS Product Pool Gross Proceeds From Items Sold
DEMIL A and DEMIL B/Q
Fiscal Years 1985-2000*



* Data for FY 2000 are annualized based on 10 months.

Figure II-8
CONUS Adjusted Gross Rate of Return
DEMIL A and DEMIL B/Q
Fiscal Years 1985-2000*



* Data for FY 2000 are limited to 10 months through July.

There have been no "Disputes," nor has there been any disputed claim threatened by or presented to either party to the contract.

The CV-1 contract includes six month phase-in provisions that are similar to those in Art. 3 of this IFB. Thus, LLG was initially prepared to accept property deliveries at 16 DRMOs that were selected by agreement between DRMS and LLG and that were expected, based upon historical data, to refer 50% or more of the property to be sold to LLG. Due to certain DRMS logistical difficulties, however, the early flow of property to LLG at these 16 DRMOs was somewhat lower than had been planned. It also took DRMS somewhat longer than had been anticipated to begin deliveries to LLG of property at all operating DRMOs, and it took somewhat longer as well for LLG to begin receiving regular deliveries of property from RCP Depots. Thus, for CV-1 there were certain start-up logistical challenges. Moreover, the inflow of property generations was somewhat lower than DRMS had estimated.

The CV-1 contract requires submission of regular financial reports to DRMS. These reports are submitted annually, quarterly, and monthly. In addition, the CV-1 Purchaser also submits a Monthly Distribution Statement. Copies of these reports received by DRMS through November 2000 (for operations through October 2000) are attached as Attachment II.W.

X. MISCELLANEOUS

Prospective bidders should note that work performed on government premises, such as at DRMOs and other Delivery Points, may be subject to the provisions of Public Law 89-176, September 10, 1965 (18 U.S.C. 4082(c)(2)) and Executive Order 11755, December 29, 1973 (convict labor), and/or the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333) and regulations of the Secretary of Labor thereunder (overtime compensation).

Prospective bidders should also note that, under applicable law, the sale of Property to re-sale buyers in the following countries is prohibited: Cuba, Iran, Iraq, Libya, North Korea, Sudan and UNITA (Angola). Moreover, the list of prohibited countries may change over the course of the Performance Period.

Prospective bidders should also note that provisions of the Food, Drug and Cosmetic Act, 21 U.S.C. 311 et seq. and regulations promulgated thereunder forbid the sale of adulterated or misbranded medical devices.

Prospective offerors should further note the following with respect to boats, cutters and ships:

No assurances are given that any boat/cutter/ship will be suitable for inspection and certification under the Merchant Marine Safety Laws and Regulations of the United States.

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Some vessels may contain paint coatings that are lead or zinc oxide based. Due to the age of the vessels, all coatings are assumed to be lead and/or zinc oxide based. The Purchaser must comply with OSHA and other regulations concerning worker safety and environmental compliance.

PCB, asbestos or other hazardous or toxic items or components not specifically identified may remain on the vessel(s) being offered in this Invitation for Bids. Strict adherence to federal environmental statutes, U.S. environmental protection (EPA) regulations, and state and local environmental laws and regulations is required. Purchaser is cautioned that it is solely responsible to ascertain the extent to which federal environmental regulations may affect it and comply therewith.

RESOURCE CONSERVATION AND RECOVERY ACT NOTICE: EPA Hazardous Waste Regulations, 40 CFR Part 260 et seq. published at 45 Federal Register 33063-33285, May 19, 1980, became effective on November 19, 1980. These cradle-to-grave regulations detail the responsibilities of generators, transporters, treaters, storers and disposers of hazardous waste. Civil and criminal penalties are available for noncompliance. DRMS does not intend to transfer any RCRA regulated hazardous waste under this contract as regulated waste is disposed of under DRMS's hazardous waste contracts. However, DRMS can make no representations as to when and under what circumstances state, federal or local environmental regulations may be applicable to Property transferred to and held by the Purchaser.

CHEMICAL AGENT RESISTANT COATING (CARC) PAINT: Prospective offerors are cautioned that that some items are, or likely to contain or be coated with a chemical agent resistant to coatings containing trivalent chrome, lead, cobalt-zinc hexamethylene diisocyanate and other chemicals which are a hazard to human health if not processed properly. The Government brings the following precautions/warnings to the attention of prospective offerors who plan to apply the CARC paint or disturb the coating on the property in any way:

- (1) Airline respirators should be used during application processing (applying/sanding/torch cutting, etc.) unless air sampling shows exposure to be below OSHA/host Government standards, then a chemical cartridge air-purifying respirator must be used.
- (2) CARC paint should be isolated from heat, electrical equipment, sparks and open flame during storage or application. Local exhaust ventilation should be used for inside processing.
- (3) Exposure to vapor/mist/dust or fumes can cause irritation to respiratory tract (lung, nose, throat), edema, dermatitis, dizziness, rash, itching, swelling of extremities, eye irritation or damage to nervous system, kidney or liver. Coating may be fatal if swallowed.

REFRIGERANT: Refrigeration equipment and appliances are subject to the Clean Air Act (CAA) Amendments of 1990 which prohibit the venting or release to the environment of Class I or Class II ozone depleting substances, and are also subject to the Refrigerant Recycling

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Rule in 40 Code of Federal Regulations (CFR) Subpart F 82. 150-166, requiring the recovery and verification of refrigerant removal by a certified technician, using certified recovery equipment prior to final disposal as scrap or in a landfill.

WARRANTY FOR USEABLE AIRCRAFT COMPONENTS / PARTS: The Purchaser is advised that the aircraft components/parts on this sale may not currently be certified by the appropriate regulatory agency(ies) for use on civilian aircraft. The Purchaser represents, warrants, and guarantees to the Government that this (these) item(s) will not be used, offered for sale, or sold for use in civilian aircraft unless proper certification is obtained from the appropriate regulatory agency(ies). This (these) item(s) also may not be installed on any civilian aircraft unless installed by a Federal Aviation Administration (FAA) certified repairman and/or mechanic. The Purchaser agrees to hold the Government harmless from any and all demands, suits, actions, or claims of whatsoever nature arising from or out of violation of this warranty.

MEDICAL DEVICE ITEMS: Delivery of medical device items, as well as items identified as an "FDA Regulated Medical Item" on any DTID, is conditional upon the Purchaser providing a properly completed Food and Drug Administration (FDA) certification to the SCO.

AIRCRAFT INSIGNIA AND MARKINGS: The Purchaser will be required to permanently remove or obliterate all Military Service distinctive markings from aircraft prior to removal from the Government premises. The Purchaser may remove or obliterate the markings by scraping, grinding, use of

paint removers, or by other means upon approval of the SCO. This requirement does not apply to aircraft which are required to be demilitarized.

HELICOPTER BLADES AND TAIL ROTORS: It is the responsibility of the recipient to determine if the helicopter blade or tail rotor as designed and manufactured can be put to the use intended by the recipient since there may be use requirements which may not be met by military specifications or serviceability criteria. Each item has an accompanying historical record with which the further use of the item for its designed purpose can be determined.

KITCHEN STOVES: In the event of sale or re-sale of Property identified on the Property Referral List as “Article LN Kitchen Stoves,” Purchaser shall ensure that the warning statement which is affixed to such items regarding their design features and reuse will not be removed prior to sale to an ultimate user, and Purchaser shall include this clause in its entirety in any later sale or transfer of title, unless Purchaser modifies, replaces or repairs the stoves to remove or eliminate the hazard.

Prospective offerors should also note that there are certain Public Laws that may impact the flow of items that otherwise would become “Property” that is subject to this sale:

Public Law 98-575, Commercial Space Launch Act (“CSLA”), dated October 30, 1984.

The purposes of the CSLA are to promote economic growth and entrepreneurial activity through the utilization of the space environment for peaceful purposes; encourage the private sector to provide launch vehicles and associated launch services; facilitate/encourage the

acquisition (sale, lease, transaction in lieu of sale, or otherwise) by the private sector of launch property of the U.S. which is “excess or otherwise not needed for public use,” in consultation with Secretary of Transportation. Donation screening is not required prior to sale.

Wildfire Suppression Aircraft Transfer Act of 1996, dated January 3, 1996

This act authorizes the sale of excess Department of Defense (DoD) aircraft and aircraft parts to facilitate the suppression of wildfire. Prior to the sale, the Secretary of Agriculture must certify that the person or entity is capable of meeting the terms and conditions of a contract to deliver fire retardant by air. The purchaser must certify that the aircraft and aircraft parts will be used only for wildfire suppression purposes.

Public Law 106-181, Oil Spill Containment Act

This statute, also known as “The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century,” allows DoD, during the period 4 April 2000 through 30 September 2002, to sell aircraft and aircraft parts to a person or entity that provides oil spill response services (including the application of oil dispersants by air).

Y. SCRAP RATE RISK AND ADJUSTMENTS TO CONTRACTOR’S PURCHASE PRICE

As discussed in Section II.C above, generators tentatively designate an item as Useable or Scrap prior to turn-in to DRMS. DRMS receiving personnel may either accept the Useable designation or downgrade the item to Scrap (a Downgrade Upon Receipt). DRMS personnel similarly may either accept the Scrap designation or upgrade the item to Useable (an Upgrade Upon Receipt). Some items initially accepted as Scrap are later upgraded to Useable (a Post-Receipt Upgrade).

The Contractor and Purchaser are at risk for systematic changes in upgrade and downgrade procedures and decisions. For example, increasing upgrade rates or decreasing downgrade rates would result in greater volumes of Property referred for sale to the Purchaser that would have been designated as Scrap prior to such change.

To protect the Contractor and Purchaser in part from such risk, Article 6 provides for **(i)** an adjustment to the Contractor’s Purchase Price if the “Downgrade Rate” falls below a pre-specified set of “Downgrade Norms” determined from historical data, and **(ii)** subject to certain limitations, the right to return upgraded Property to DRMS for a credit of the applicable Contractor’s Purchase Price. (See Art. 6.)

For each of the thirteen Product Subpool Bid Categories, the FSC/DEMIL Code combinations were ranked by Downgrade Rate and then divided into three Downgrade Rate Subcategories. The Downgrade Norm associated with each Subcategory was then specified by DRMS with respect to these data. See Schedule VI.6.5(A)(4).

If the Downgrade Rate for a particular year for a particular Downgrade Rate Subcategory declines below the corresponding Downgrade Norm, the Contractor’s Purchase Price will be adjusted downward by formula. (See Art 6.)

DRMS cannot predict the volume of Downgrades Upon Receipt or Downgrade Rates for the Product Pool, for a particular Downgrade Rate Subcategory or for a particular combination of FSC and DEMIL Code, nor can DRMS predict either whether the Contractor and Purchaser will be adequately insulated from the effect of lower Downgrade Rates than anticipated by the offeror or the magnitude of such effect. The offeror therefore must account for this risk in its bidding, and DRMS expressly disavows any implicit prediction, projection or suggestion to the contrary.

Z. RISK FACTORS

A prospective offeror should be aware of certain risk factors that could affect an offeror’s assessment of this contract and the calculations supporting the offeror’s bid. Although DRMS does not represent that it has identified all such risk factors, the following, in addition to those risks identified elsewhere in this IFB, should be considered by a prospective offeror:

The future volume, quality, condition, market value, types (i.e., distribution of Property referrals across FSCs), and geographic concentrations (i.e., referrals for sale at particular Delivery Points) of the Property cannot be predicted. Variability in any of these dimensions could adversely affect the Purchaser's re-sale proceeds and costs, thereby reducing the prospective Contractor's investment gains or increasing its losses. In particular, the future volume of Property may be lower than anticipated by the offeror and may be insufficient to support the Purchaser's cost structure, and the types of items referred for sale may disproportionately be of lower value and/or require higher operating costs than expected by the offeror.

The effect of the R/T/D process on Property referrals cannot be predicted. Statutory changes to the R/T/D process are possible, and also DRMS cannot predict the types or volumes of items that R/T/D claimants will select that could otherwise qualify as Property referred for sale under this contract.

DRMS has endeavored to present historical data in this IFB that, subject to the descriptions and qualifications accompanying presentation of the data, are accurate. Nevertheless, DRMS cannot guarantee the accuracy of these data, and the data may contain material inaccuracies or omissions.

The amounts and timing of Seller Indirect Costs incurred by the Purchaser cannot be predicted. Because the provisions of the contract require funding of Seller Indirect Costs by the Purchaser and/or the Contractor, unexpectedly high

expenditures for Seller Indirect Costs may reduce investment gains or increase losses for the prospective Contractor.

The amounts and timing of Direct Costs incurred by the Purchaser cannot be predicted. Moreover, historical data on proceeds obtained by DRMS from the sale of items in the pertinent FSCs are not necessarily accurate predictors of the re-sale proceeds obtainable by the Purchaser.

Inflows of Property at particular DRMOs or DRMS Warehouses may be sufficiently high relative to space availability as to cause removal and/or re-sale by the Purchaser on an expedited and less efficient schedule than desired by the Purchaser. Moreover, two locations recently closed, and others are likely to be closed during the prospective Performance Period as part of the DRMS infrastructure reduction program. This may cause "bottlenecks" from time to time at the remaining DRMOs. This may also lead to referrals of Property in place at Special Situation Locations, thus causing the Purchaser to incur Seller Indirect Costs that must be funded by the Purchaser and/or the prospective Contractor until such time as amounts otherwise distributable to DRMS are sufficient to reimburse such expenditures.

The structure of the Bid Categories, and the assignment of each pertinent combination of FSC and DEMIL Code to its Bid Category, may not insulate the Purchaser and the prospective Contractor to the extent anticipated by the prospective Contractor from adverse consequences of unpredictable concentrations of Property in particular combinations of FSC and DEMIL Code.

Costs incurred to phase in Property purchases and re-sales, both during the Phase-In Period and beyond, may be higher than expected by the prospective Contractor. Moreover, the re-sale of Property, both during the Phase-In Period and thereafter, may take longer than anticipated by the prospective Contractor.

DRMS may not be able to add particular Delivery Points to the Phase-In Schedule as quickly as expected or desired by the prospective Contractor.

In several respects this contract requires cooperation between DRMS and the Purchaser, especially as regards the logistics of referring Property for sale to Purchaser, Delivery of the Property, assigning Purchaser's Dedicated Storage at particular facilities, arranging access to the Property for Purchaser and prospective re-sale buyers, removing Property from certain Delivery Points upon request or notice from DRMS, and in other respects. In addition, the contract provides that DRMS is to assist the Purchaser with some tasks only to the extent that resources (personnel and equipment) are available. Moreover, the contract provides that DRMS may exercise its sole discretion to grant or deny certain requests by the Purchaser, including without limitation requests for On-Site Processing at certain Delivery Points and requests for on-site auctions or spot bidding at any Delivery Point. A prospective offeror should consider the risks that such cooperation may

be less forthcoming, that such resources may be available less often or in a lesser quantity, and that such requests are granted less often, or with respect to less important matters or subject to more burdensome conditions, than the prospective offeror had expected.

The inflow of items to DRMS from generators cannot be predicted in terms of the initial designation of Property as "Scrap" or "Useable," and DRMS policies and procedures with respect to such designations may change during the Performance Period. The pertinent provisions of the contract may not insulate the Contractor and Purchaser from the adverse consequences of such factors to the extent expected by the prospective Contractor.

The complexity and costs of implementing, maintaining and operating the accounting and inventory control systems as required by pertinent provisions of the contract may be greater than anticipated by the prospective Contractor. In addition, the costs of complying with the contract's requirements with respect to reporting, financial auditing and compliance auditing may be greater than anticipated by the prospective offeror.

Subject to provisions governing early cancellation and termination, the Performance Period is seven years (84 months). There is no provision permitting an extension of the contract beyond seven years. It may be more difficult or more costly for the Purchaser to hire and retain employees, especially near the end of the Performance Period, than anticipated by the prospective Contractor.

Described generally, applicable statutes and regulations grant DRMS less flexibility to agree to amend a contract after award than a prospective offeror may have experienced in other contractual settings. Prospective offerors should assume that the provisions of the contract cannot

be significantly amended after award.

This IFB presents several examples of illustrative financial calculations based upon certain purely hypothetical assumptions concerning such matters as revenues, costs and other assumptions. These calculations are presented solely for the purpose of illustrating certain of the mechanics of the contract. DRMS cannot predict, and makes no representation concerning, any assumption that is material to projecting or calculating the performance of the Purchaser or the investment gains or losses for the prospective Contractor under this contract. Moreover, the illustrative calculations presented in this IFB are simplified for the purpose of illustrating certain mechanics of the contract and are not intended to identify all material assumptions or factors that may affect the performance of the Purchaser or investment gains or losses for the prospective Contractor.

This IFB may be the subject of one or more protests to the U.S. General Accounting Office. Moreover, it is possible that, either pending or after award,

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one or more third parties that object to this contract could institute litigation involving both DRMS and the Contractor. DRMS cannot predict the likelihood or the possible grounds for such litigation. Nevertheless, this is a risk factor that should be assessed by a prospective offeror.

From time to time in the past, DLA Depots have released surplus items to DRMS for R/T/D review and sale in particularly irregular volumes. In other words, there have been substantial “peaks” and “valleys” in the inflow to DRMS of items from the Depots. DRMS cannot predict whether this will be the case at any time during the Performance Period. If so, however, this could adversely impact the Purchaser’s costs and revenues, thereby reducing the prospective Contractor’s investment gains or increasing its losses.

Applicable statutes, regulations, policies and inter-service agreements govern whether the disposition of particular items of surplus is through DRMS or through other disposition modes. The volume and nature of the Property referred for sale under this contract could be affected by changes in such governing statutes, regulations, policies and inter-service agreements.

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III. BID SCHEDULE

A. BACKGROUND INFORMATION

Property to be sold under this IFB is categorized by Federal Supply Classification (FSC) and DEMIL Code. The combinations of FSC and DEMIL Code that are included in the Product Pool are detailed in Table IV-1 in Part IV below. Each combination of FSC and DEMIL Code in the Product Pool has been assigned one of five (5) “Bid Categories” — A through E. The five categories were created by ranking these FSC and DEMIL Code combinations by DRMS Adjusted Gross ROR over three fiscal years (FY 1997-1999 for CV-2 Items, FY 1996-1998 for CV-1 Items) and grouping them into categories from “A” to “E” (from high to low DRMS Adjusted Gross ROR). The structure of the Bid Categories attempts to mitigate the effects on the Purchaser of shifts in the composition of the Property flow between FSC / DEMIL Code combinations with historically high and low DRMS Adjusted Gross RORs.

For bidding purposes, the Property has been subdivided into three (3) “Product Subpools” as follows.

1. CV-2, DEMIL A: CV-2 Items classified as DEMIL A
2. CV-2, DEMIL B or Q: CV-2 Items classified as “DEMIL B” or “DEMIL Q”
3. CV-1, DEMIL A: CV-1 Items (by definition, these are classified as “DEMIL A”).

There are thirteen (13) unique combinations of Product Subpool and Bid Category (hereinafter, “Product Subpool Bid Category”).(10)

Tables III-1a through III-1c, below, provide a summary of Adjusted Acquisition Values, Gross Proceeds and Adjusted Gross ROR for the thirteen (13) Product Subpool Bid Categories for the fiscal years 1995 through 2000 (for FY2000, annualized based upon 10 months of data through July).

Tables III-2a through III-2h, also below, present the Adjusted Acquisition Values, Gross Proceeds and Adjusted Gross RORs by Product Group for the Product Subpool Bid Categories. DRMS historical data are provided for CV-2 Items sold within CONUS for FY 1997-1999 (Tables III-2a, III-2b, III-2d, and III-2e) and for CV-1 Items sold within CONUS for FY 1996-

(10) There are thirteen, rather than fifteen, Product Subpool Bid Categories due to the fact that there is no DEMIL B or Q Property with a sufficiently high ROR to be classified as BID Category A or B.

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Table III-1a

Adjusted Acquisition Values, FY 1995-2000*
Summary for Product Subpool Bid Categories
(CONUS Property Only)
(\$000s)

Product Subpool	Bid Category	1995	1996	1997	1998	1999	2000*	Average**
CV-2 DEMIL A	A	\$ 264,663	\$ 231,273	\$ 201,351	\$ 134,281	\$ 142,489	\$ 109,944	\$ 159,373
	B	\$ 380,594	\$ 315,995	\$ 248,516	\$ 215,815	\$ 172,644	\$ 127,365	\$ 212,325
	C	\$ 307,590	\$ 332,305	\$ 296,634	\$ 268,039	\$ 224,977	\$ 199,697	\$ 263,216
	D	\$ 200,261	\$ 189,750	\$ 162,742	\$ 189,275	\$ 134,869	\$ 103,893	\$ 162,295
	E	\$ 1,147,107	\$ 1,672,910	\$ 1,081,679	\$ 1,142,889	\$ 867,184	\$ 508,056	\$ 1,030,584
Total	\$ 2,300,215	\$ 2,742,232	\$ 1,990,922	\$ 1,950,300	\$ 1,542,162	\$ 1,048,954	\$ 1,827,795	
	A***	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	B***	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
CV-2 DEMIL B or Q	C	\$ 118,690	\$ 82,091	\$ 109,767	\$ 121,964	\$ 141,769	\$ 166,672	\$ 124,500
	D	\$ 776,465	\$ 970,142	\$ 798,866	\$ 809,602	\$ 826,959	\$ 625,291	\$ 811,809
	E	\$ 1,374,681	\$ 1,402,357	\$ 1,125,995	\$ 1,467,986	\$ 1,477,431	\$ 981,656	\$ 1,357,137
	Total	\$ 2,269,837	\$ 2,454,590	\$ 2,034,628	\$ 2,399,552	\$ 2,446,159	\$ 1,773,619	\$ 2,293,446
		A	\$ 228,072	\$ 129,809	\$ 142,537	\$ 111,885		
	B	\$ 211,369	\$ 182,125	\$ 162,534	\$ 190,800			\$ 178,487
CV-1	C	\$ 519,884	\$ 541,698	\$ 362,163	\$ 304,432			\$ 402,764
	D	\$ 1,164,466	\$ 1,149,521	\$ 928,452	\$ 988,686			\$ 1,022,220
	E	\$ 1,092,894	\$ 1,103,035	\$ 885,068	\$ 915,767			\$ 967,957
	Total	\$ 3,216,684	\$ 3,106,189	\$ 2,480,753	\$ 2,511,570			\$ 2,699,504

* Acquisition Values for FY 2000 have been annualized to 12 months based on 10 months of data.

** Averages for both CV-2 Product Subpools are based on FY 97-99. Averages for the CV-1 Product Subpool are based on FY 96-98.

*** No DEMIL B or Q Property is assigned to Bid Categories A or B.

29.1

Table III-1b
Gross Proceeds, FY 1995-2000*
Summary for Product Subpool Bid Categories
(CONUS Property Only)
(\$000s)

Product Subpool	Bid Category	1995	1996	1997	1998	1999	2000*	Average
CV-2 DEMIL A	A	\$ 17,526	\$ 16,859	\$ 16,709	\$ 10,754	\$ 10,175	\$ 6,763	\$ 12,546
	B	\$ 11,577	\$ 12,001	\$ 11,424	\$ 9,486	\$ 7,003	\$ 4,378	\$ 9,304
	C	\$ 7,816	\$ 8,746	\$ 8,244	\$ 7,558	\$ 6,873	\$ 4,507	\$ 7,558
	D	\$ 2,978	\$ 2,387	\$ 2,471	\$ 2,526	\$ 1,866	\$ 1,485	\$ 2,287
	E	\$ 4,703	\$ 7,232	\$ 7,397	\$ 6,467	\$ 3,764	\$ 3,417	\$ 5,876
Total	\$ 44,600	\$ 47,224	\$ 46,244	\$ 36,791	\$ 29,681	\$ 20,551	\$ 37,572	
	A***	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	B***	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
CV-2 DEMIL B or Q	C	\$ 3,747	\$ 2,602	\$ 4,111	\$ 4,788	\$ 5,069	\$ 4,653	\$ 4,656
	D	\$ 11,884	\$ 11,434	\$ 10,605	\$ 11,052	\$ 8,110	\$ 9,972	\$ 9,923
	E	\$ 5,695	\$ 5,724	\$ 4,303	\$ 6,585	\$ 5,862	\$ 6,992	\$ 5,583
	Total	\$ 21,327	\$ 19,760	\$ 19,019	\$ 22,425	\$ 19,042	\$ 21,617	\$ 20,162
		A	\$ 29,330	\$ 15,765	\$ 20,971	\$ 12,631		
	B	\$ 10,520	\$ 9,643	\$ 8,071	\$ 7,317			\$ 8,343
CV-1	C	\$ 13,200	\$ 14,946	\$ 10,367	\$ 7,659			\$ 10,991
	D	\$ 15,129	\$ 13,289	\$ 13,372	\$ 13,930			\$ 13,530
	E	\$ 4,779	\$ 5,442	\$ 5,688	\$ 5,587			\$ 5,573
	Total	\$ 72,959	\$ 59,084	\$ 58,470	\$ 47,124			\$ 54,893

* Proceeds for FY 2000 have been annualized to 12 months based on 10 months of data.

** Averages for both CV-2 Product Subpools are based on FY 97-99. Averages for the CV-1 Product Subpool are based on FY 96-98.

*** No DEMIL B or Q Property is assigned to Bid Categories A or B.

29.2

Table III-1c
Adjusted Gross RORs, FY 1995-2000*
Summary for Product Subpool Bid Categories
(CONUS Property Only)

Product Subpool	Bid Category	1995	1996	1997	1998	1999	2000*	Average
	A	6.62%	7.29%	8.30%	8.01%	7.14%	6.15%	7.87%

Aircraft Related, Misc. Ground and Shop	7,293	100	1.37 %	7,337	76	1.04 %	0.40 %	0.27 %	0.70 %	0.37 %
Vehicles	7,673	142	1.85 %	5,749	53	0.92 %	0.42 %	0.38 %	0.55 %	0.26 %
Textiles, Clothing, Footwear, Etc.	9,965	160	1.61 %	4,340	81	1.87 %	0.55 %	0.43 %	0.41 %	0.40 %
Furniture & Household Related	1,026	20	1.91 %	431	4	0.89 %	0.06 %	0.05 %	0.04 %	0.02 %
Electrical	1,096	15	1.37 %	51	0	0.24 %	0.06 %	0.04 %	0.00 %	0.00 %
Medical Related	105,613	1,418	1.34 %	66,675	968	1.45 %	5.78 %	3.77 %	6.36 %	4.71 %
Other	29,630	433	1.46 %	19,311	303	1.57 %	1.62 %	1.15 %	1.84 %	1.47 %
Bid Category D	162,295	2,287	1.41 %	103,893	1,485	1.43 %	8.88 %	6.09 %	9.90 %	7.23 %
Bid Category E: ROR <1%										
Aircraft Related, Misc. Ground and Shop	493,982	2,387	0.48 %	315,170	2,189	0.69 %	27.03 %	6.35 %	30.05 %	10.65 %
Vehicles	0	0	—	0	0	—	0.00 %	0.00 %	0.00 %	0.00 %
Textiles, Clothing, Footwear, Etc.	33	0	0.95 %	66	4	6.25 %	0.00 %	0.00 %	0.01 %	0.02 %
Furniture & Household Related	0	0	—	0	0	—	0.00 %	0.00 %	0.00 %	0.00 %
Electrical	432,496	2,898	0.67 %	151,614	866	0.57 %	23.66 %	7.71 %	14.45 %	4.22 %
Medical Related	21,984	124	0.56 %	10,450	91	0.87 %	1.20 %	0.33 %	1.00 %	0.44 %
Other	82,090	466	0.57 %	30,757	266	0.87 %	4.49 %	1.24 %	2.93 %	1.30 %
Bid Category E	1,030,584	5,876	0.57 %	508,056	3,417	0.67 %	53.38 %	15.64 %	48.43 %	16.63 %
Total	1,827,795	37,572	2.06 %	1,048,954	20,551	1.96 %	100.00 %	100.00 %	100.00 %	100.00 %

* Proceeds and Acquisition Values for FY 2000 are annualized to 12 months based on 10 months of data.

29.5

Table III-2b
FY 1997 - 1999 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-2 DEMIL B/Q Product Subpool
Categorized by Bid Category and Product Group

Bid Category, Product Group	FY 1997 - 1999 Average			FY 2000*			Percentage of FY 1997 - 1999 Average		Percentage of FY 2000*	
	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value	Proceeds	Adj. Acq. Value	Proceeds
Bid Category C: ROR >= 2%										
Aircraft Related, Misc. Ground and Shop Equ	14,022	536	3.83%	20,587	262	1.27%	0.61%	2.66%	1.16%	1.21%
Vehicles	84,324	2,920	3.46%	111,388	3,245	2.91%	3.68%	14.48%	6.28%	15.01%
Textiles, Clothing, Footwear, Etc.	15,844	722	4.56%	23,442	497	2.12%	0.69%	3.58%	1.32%	2.30%
Furniture & Household Related	0	0	15.97%	0	0	—	0.00%	0.00%	0.00%	0.00%
Electrical	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Medical Related	27	1	3.21%	10	0	0.00%	0.00%	0.00%	0.00%	0.00%
FSCs from CV-1 but Demil B/Q	8,703	341	3.92%	9,595	454	4.73%	0.38%	1.69%	0.54%	2.10%
Other	1,579	136	8.61%	1,651	194	11.78%	0.07%	0.67%	0.09%	0.90%
Bid Category C	124,500	4,656	3.74%	166,672	4,653	2.79%	5.43%	23.09%	9.40%	21.52%
Bid Category D: 2% >=ROR>= 1%										
Aircraft Related, Misc. Ground and Shop Equ	780,688	9,523	1.22%	593,308	9,646	1.63%	34.04%	47.23%	33.45%	44.62%
Vehicles	5,749	99	1.72%	12,263	83	0.67%	0.25%	0.49%	0.69%	0.38%
Textiles, Clothing, Footwear, Etc.	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Furniture & Household Related	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Electrical	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Medical Related	9,483	97	1.02%	5,051	61	1.21%	0.41%	0.48%	0.28%	0.28%
FSCs from CV-1 but Demil B/Q	10,084	127	1.26%	11,661	161	1.38%	0.44%	0.63%	0.66%	0.75%
Other	5,805	76	1.31%	3,009	21	0.71%	0.25%	0.38%	0.17%	0.10%
Bid Category D	811,809	9,923	1.22%	625,291	9,972	1.59%	35.40%	49.21%	35.26%	46.13%
Bid Category E: ROR <1%										
Aircraft Related, Misc. Ground and Shop Equ	633,938	3,946	0.62%	452,189	4,642	1.03%	27.64%	19.57%	25.50%	21.48%
Vehicles	35,887	292	0.81%	15,314	154	1.01%	1.56%	1.45%	0.86%	0.71%
Textiles, Clothing, Footwear, Etc.	10,272	86	0.84%	16,780	195	1.16%	0.45%	0.43%	0.95%	0.90%
Furniture & Household Related	7	0	0.01%	1	0	0.00%	0.00%	0.00%	0.00%	0.00%
Electrical	114,110	107	0.09%	109,726	66	0.06%	4.98%	0.53%	6.19%	0.30%
Medical Related	2,147	11	0.49%	1,484	37	2.50%	0.09%	0.05%	0.08%	0.17%
FSCs from CV-1 but Demil B/Q	433,435	964	0.22%	352,340	1,006	0.29%	18.90%	4.78%	19.87%	4.65%
Other	127,343	178	0.14%	33,821	892	2.64%	5.55%	0.88%	1.91%	4.12%
Bid Category E	1,357,137	5,583	0.41%	981,656	6,992	0.71%	59.17%	27.69%	55.35%	32.35%
TOTAL	2,293,446	20,162	0.88%	1,773,619	21,617	1.22%	100.00%	100.00%	100.00%	100.00%

* Proceeds and Acquisition Values for FY 2000 are annualized to 12 months based on 10 months of date.

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Table III-2c
FY 1996 - 1998 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-1 Product Subpool
Categorized by Bid Category and Product Group

Bid Category, Product Group	FY 1996-98 Average			Percentage of FY 1996-98 Average	
	Adj. Acq. Value (\$000s) [Column 2]	Proceeds (\$000s) [Column 3]	DRMS Adj. Gross ROR [Column 4]	Adj. Acq. Value	Proceeds
Bid Category A: ROR >= 5.60%					
Equipment	111,727	13,998	12.53%	4.14%	25.50%
Materials	16,350	2,457	15.03%	0.61%	4.48%
Electrical	0	0	—	0.00%	0.00%
Bid Category A	128,077	16,456	12.85%	4.74%	29.98%

Bid Category B: 5.60% > ROR >= 3.80%						
Equipment	79,620	3,734	4.69%	2.95%	6.80%	
Materials	76,532	3,588	4.69%	2.84%	6.54%	
Electrical	22,334	1,021	4.57%	0.83%	1.86%	
Bid Category B	178,487	8,343	4.67%	6.61%	15.20%	

Bid Category C: 3.80% > ROR >= 2.00%						
Equipment	160,849	4,229	2.63%	5.96%	7.70%	
Materials	82,870	1,499	2.38%	2.33%	2.73%	
Electrical	179,045	5,263	2.94%	6.63%	9.59%	
Bid Category C	402,764	10,991	2.73%	14.92%	20.02%	

29.7

Table III-2c
FY 1996 - 1998 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-1 Product Subpool
Categorized by Bid Category and Product Group

Bid Category, Product Group	FY 1996-98 Average			Percentage of FY 1996-98 Average		
	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value	Proceeds	
	[Column 2]	[Column 3]	[Column 4]			
Bid Category D: 2.00% > ROR >= 1.00%						
Equipment	419,854	5,745	1.37%	15.55%	10.47%	
Materials	124,785	1,679	1.35%	4.62%	3.06%	
Electrical	477,581	6,106	1.28%	17.69%	11.12%	
Bid Category D	1,022,220	13,530	1.32%	37.87%	24.65%	
Bid Category E: ROR < 1.00%						
Equipment	125,204	911	0.73%	4.64%	1.66%	
Materials	89,869	730	0.81%	3.33%	1.33%	
Electrical	752,884	3,931	0.52%	27.89%	7.16%	
Bid Category E	967,957	5,573	0.56%	35.86%	10.15%	
Total	2,699,504	57,893	2.03%	100.00%	100.00%	

29.8

Table III-2d
FY 1997 - 1999 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-2 DEMIL A Product Subpool
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 1997 - 1999 Average			FY 2000*			Percentage of FY 1997 - 1999 Product Group		Percentage of FY 2000* Product Group	
	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value	Proceeds	Adj. Acq. Value	Proceeds
Aircraft Related, Misc., Ground and Sho										
	575,633	4,747	0.82%	409,115	3,930	0.96%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	6,191	350	5.65%	2,439	114	4.67%	1.08%	7.38%	0.60%	2.90%
Bid Category B: 5.6% > ROR >= 3.8%	2,925	115	3.95%	1,404	28	2.00%	0.51%	2.43%	0.34%	0.71%
Bid Category C: 3.8% > ROR >= 2%	65,242	1,794	2.75%	82,764	1,522	1.84%	11.33%	37.79%	20.23%	38.74%
Bid Category D: 2% > ROR >= 1%	7,293	100	1.37%	7,337	76	1.04%	1.27%	2.11%	1.79%	1.94%
Bid Category E: ROR < 1%	493,982	2,387	0.48%	315,170	2,189	0.69%	85.82%	50.29%	77.04%	55.71%
Vehicles										
	207,818	9,304	4.48%	127,173	3,713	2.92%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	50,161	3,444	6.87%	24,685	1,116	4.52%	24.14%	37.01%	19.41%	30.06%
Bid Category B: 5.6% > ROR >= 3.8%	94,927	4,142	4.36%	63,300	1,940	3.06%	45.66%	44.52%	49.77%	52.25%
Bid Category C: 3.8% > ROR >= 2%	55,057	1,577	2.86%	33,440	604	1.81%	26.49%	16.95%	26.30%	16.27%
Bid Category D: 2% > ROR >= 1%	7,673	142	1.85%	5,749	53	0.92%	3.69%	1.52%	4.52%	1.43%
Bid Category E: ROR < 1%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Textiles, Clothing, Footwear, Etc.										
	141,296	9,367	6.63%	108,445	5,823	5.37%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	89,248	7,724	8.65%	72,930	4,805	6.59%	63.16%	82.46%	67.25%	82.52%
Bid Category B: 5.6% > ROR >= 3.8%	16,914	673	3.98%	10,624	331	3.12%	11.97%	7.19%	9.80%	5.69%
Bid Category C: 3.8% > ROR >= 2%	25,136	810	3.22%	20,484	601	2.93%	17.79%	8.64%	18.89%	10.32%
Bid Category D: 2% > ROR >= 1%	9,965	160	1.61%	4,340	81	1.87%	7.05%	1.71%	4.00%	1.40%
Bid Category E: ROR < 1%	33	0	0.95%	66	4	6.25%	0.02%	0.00%	0.06%	0.07%
Furniture & Household Related										
	86,249	3,675	4.26%	43,600	1,849	4.24%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	78	9	11.88%	24	3	12.87%	0.09%	0.25%	0.05%	0.16%
Bid Category B: 5.6% > ROR >= 3.8%	71,620	3,238	4.52%	37,462	1,438	3.84%	83.04%	88.10%	85.92%	77.79%
Bid Category C: 3.8% > ROR >= 2%	13,525	409	3.02%	5,684	404	7.10%	15.68%	11.12%	13.04%	21.84%
Bid Category D: 2% > ROR >= 1%	1,026	20	1.91%	431	4	0.89%	1.19%	0.53%	0.99%	0.21%
Bid Category E: ROR < 1%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Electrical										
	433,593	2,913	0.67%	151,665	867	0.57%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category B: 5.6% > ROR >= 3.8%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category C: 3.8% > ROR >= 2%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category D: 2% > ROR >= 1%	1,096	15	1.37%	51	0	0.24%	0.25%	0.51%	0.03%	0.01%
Bid Category E: ROR < 1%	432,496	2,898	0.67%	151,614	866	0.57%	99.75%	99.49%	99.97%	99.99%

* Proceeds and Acquisition Values for FY 2000 are annualized to 12 months based on 10 months of data.

29.9

Table III-2d
FY 1997 - 1999 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-2 DEMIL A Product Subpool
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 1997 - 1999 Average			FY 2000*			Percentage of FY 1997 - 1999 Product Group		Percentage of FY 2000* Product Group	
	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value	Proceeds	Adj. Acq. Value	Proceeds
	Medical Related	212,308	4,506	2.12%	122,937	2,739	2.23%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	7,320	522	7.14%	5,275	499	9.46%	3.45%	11.59%	4.29%	18.22%
Bid Category B: 5.6% > ROR >= 3.8%	17,528	742	4.23%	9,071	459	5.06%	8.26%	16.47%	7.38%	16.76%
Bid Category C: 3.8% > ROR >= 2%	59,864	1,699	2.84%	31,468	722	2.29%	28.20%	37.71%	25.60%	26.36%
Bid Category D: 2% > ROR >= 1%	105,613	1,418	1.34%	66,675	968	1.45%	49.74%	31.48%	54.23%	35.36%
Bid Category E: ROR < 1%	21,984	124	0.56%	10,450	91	0.87%	10.35%	2.75%	8.50%	3.31%
Other	170,898	3,061	1.79%	86,019	1,631	1.90%	100.00%	100.00%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	6,374	497	7.80%	4,592	226	4.93%	3.73%	16.24%	5.34%	13.89%
Bid Category B: 5.6% > ROR >= 3.8%	8,411	394	4.69%	5,504	182	3.30%	4.92%	12.88%	6.40%	11.13%
Bid Category C: 3.8% > ROR >= 2%	44,392	1,271	2.86%	25,858	654	2.53%	25.98%	41.52%	30.06%	40.09%
Bid Category D: 2% > ROR >= 1%	29,630	433	1.46%	19,311	303	1.57%	17.34%	14.14%	22.45%	18.55%
Bid Category E: ROR < 1%	82,090	466	0.57%	30,757	266	0.87%	48.03%	15.23%	35.76%	16.34%
Total	1,827,795	37,572	2.06%	1,048,954	20,551	1.96%				

* Proceeds and Acquisition Values for FY 2000 are annualized to 12 months based on 10 months of data.

29.10

Table III-2e
FY 1997 - 1999 CONUS Average Adjusted Acquisition Values, Proceeds, and RORs for CV-2 DEMIL B/Q Product Subpool
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 1997 - 1999 Average			FY 2000*			Percentage of FY 1997 - 1999 Product Group		Percentage of FY 2000* Product Group	
	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value (\$000s)	Proceeds (\$000s)	DRMS Adj. Gross ROR	Adj. Acq. Value	Proceeds	Adj. Acq. Value	Proceeds
	Aircraft Related, Misc. Ground and Shop	1,428,648	14,005	0.98%	1,066,084	14,550	1.36%	100.00%	100.00%	100.00%
Equ	14,022	536	3.83%	20,587	262	1.27%	0.98%	3.83%	1.93%	1.80%
Bid Category C: ROR >= 2%	780,688	9,523	1.22%	593,308	9,646	1.63%	54.65%	68.00%	55.65%	66.29%
Bid Category D: 2% > ROR >= 1%	633,938	3,946	0.62%	452,189	4,642	1.03%	44.37%	28.17%	42.42%	31.91%
Bid Category E: ROR < 1%										
Vehicles	126,960	3,311	2.63%	138,965	3,482	2.51%	100.00%	100.00%	100.00%	100.00%
Bid Category C: ROR >= 2%	84,324	2,920	3.46%	111,388	3,245	2.91%	66.95%	88.19%	80.16%	93.20%
Bid Category D: 2% ROR >= 1%	5,749	99	1.72%	12,263	83	0.67%	4.56%	3.00%	8.82%	2.37%
Bid Category E: ROR < 1%	35,887	292	0.81%	15,314	154	1.01%	28.49%	8.81%	11.02%	4.43%
Textiles, Clothing, Footwear, Etc.	26,115	808	3.09%	40,222	692	1.72%	100.00%	100.00%	100.00%	100.00%
Bid Category C: ROR >= 2%	15,844	722	4.56%	23,442	497	2.12%	60.67%	89.37%	58.28%	71.83%
Bid Category D: 2% ROR >= 1%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category E: ROR < 1%	10,272	86	0.84%	16,780	195	1.16%	39.33%	10.63%	41.72%	28.17%
Furniture & Household Related	7	0	1.02%	1	0	0.00%	100.00%	100.00%	100.00%	0.00%
Bid Category C: ROR >= 2%	0	0	15.97%	0	0	—	6.34%	99.43%	0.00%	—
Bid Category D: 2% ROR >= 1%	0	0	—	0	0	—	0.00%	0.00%	0.00%	—
Bid Category E: ROR < 1%	7	0	0.01%	1	0	0.00%	93.66%	0.57%	100.00%	—
Electrical	114,110	107	0.09%	109,726	66	0.06%	100.00%	100.00%	100.00%	100.00%
Bid Category C: ROR >= 2%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category D: 2% ROR >= 1%	0	0	—	0	0	—	0.00%	0.00%	0.00%	0.00%
Bid Category E: ROR < 1%	114,110	107	0.09%	109,726	66	0.06%	100.00%	100.00%	100.00%	100.00%
Medical Related	11,657	108	0.93%	6,545	98	1.50%	100.00%	100.00%	100.00%	100.00%
Bid Category C: ROR >= 2%	27	1	3.21%	10	0	0.00%	0.24%	0.81%	0.15%	0.00%
Bid Category D: 2% ROR >= 1%	9,483	97	1.02%	5,051	61	1.21%	81.35%	89.49%	77.17%	62.35%
Bid Category E: ROR < 1%	2,147	11	0.49%	1,484	37	2.50%	18.42%	9.70%	22.68%	37.65%
Other	134,727	391	0.29%	38,481	1,107	2.88%	100.00%	100.00%	100.00%	100.00%
Bid Category C: ROR >= 2%	1,579	136	8.61%	1,651	194	11.78%	1.17%	34.82%	4.29%	17.56%
Bid Category D: 2% ROR >= 1%	5,805	76	1.31%	3,009	21	0.71%	4.31%	19.52%	7.82%	1.92%
Bid Category E: ROR < 1%	127,343	178	0.14%	33,821	892	2.64%	94.52%	45.66%	87.89%	80.52%
Total	2,293,446	20,162	0.88%	1,773,619	21,617	1.22%				

* Proceeds and Acquisition Values for FY 2000 are annualized to 12 months based on 10 months of date.

29.11

Table III -2f
FY 1996 - 1998 CONUS Average Adjusted Acquisition Values, Proceeds and RORs for CV-1 Product Subpool
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 1996-98 Average			Percentage of FY 1996-98 Average	
	Adj. Acq. Value (\$000) [Column 2]	Proceeds (\$000) [Column 3]	Gross ROR [Column 4]	Adj. Acq. Value	Proceeds
Equipment					
Bid Category A: ROR >= 5.60%	111,727	13,998	12.53%	4.14%	25.50%
Bid Category B: > 5.60% > ROR >= 3.80%	79,620	3,734	4.69%	2.95%	6.80%
Bid Category C: > 3.80% > ROR >= 2.00%	160,849	4,229	2.63%	5.96%	7.70%
Bid Category D: > 2.00% > ROR >= 1.00%	419,854	5,745	1.37%	15.55%	10.47%
Bid Category E: ROR < 1.00%	125,204	911	0.73%	4.64%	1.66%

	897,254	28,618	3.19%	33.24%	52.13%
Materials					
Bid Category A: ROR>=5.60%	16,350	2,457	15.03%	0.61%	4.48%
Bid Category B: > 5.60% > ROR >= 3.80%	76,532	3,588	4.69%	2.84%	6.54%
Bid Category C: > 3.80% > ROR >= 2.00%	62,870	1,499	2.38%	2.33%	2.73%
Bid Category D: > 2.00% > ROR >= 1.00%	124,785	1,679	1.35%	4.62%	3.06%
Bid Category E: ROR < 1.00%	89,869	730	0.81%	3.33%	1.33%
	370,406	9,954	2.69%	13.72%	18.13%
Electrical					
Bid Category A: ROR>=5.60%	0	0	—	0.00%	0.00%
Bid Category B: > 5.60% > ROR >= 3.80%	22,334	1,021	4.57%	0.83%	1.86%
Bid Category C: > 3.80% > ROR >= 2.00%	179,045	5,263	2.94%	6.63%	9.59%
Bid Category D: > 2.00% > ROR >= 1.00%	477,581	6,106	1.28%	17.69%	11.12%
Bid Category E: ROR < 1.00%	752,884	3,931	0.52%	27.89%	7.16%
	1,431,845	16,322	1.14%	53.04%	29.73%
TOTAL	2,699,504	54,893	2.03%	100.00%	100.00%

29.12

Table III-2g
FY 2000* Adjusted Acquisition Values, Proceeds, and RORs for CV-2 Product Subpool**
Alaska, Guam, Hawaii, and Puerto Rico
Categorized by Bid Category and Product Group

Bid Category, Product Group	FY 2000*			Percentage of FY 2000*	
	Adjusted Acquisition Value (\$000s)	Proceeds (\$000s)	DRMS Adjusted Gross ROR	Adj. Acq. Value	Proceeds
Bid Category A: ROR >=5.6%					
Aircraft Related, Misc. Ground and Shop	13	1	9.08%	0.01%	0.04%
Vehicle	5,587	395	7.06%	5.62%	14.46%
Textiles, Clothing, Footwear, Etc.	1,201	139	11.56%	1.21%	5.09%
Furniture & Household Related	2,237	167	7.45%	2.25%	6.11%
Electrical (CV-2)	0	0	—	0.00%	0.00%
Medical Related	602	47	7.81%	0.61%	1.72%
FSCs from CV-1 but Demil B/Q	0	0	—	0.00%	0.00%
Other	893	70	7.86%	0.90%	2.57%
Equipment (CV-1)	5,259	456	8.66%	5.29%	16.70%
Materials (CV-1)	665	84	12.56%	0.67%	3.06%
Electrical (CV-1)	71	4	6.17%	0.07%	0.16%
Bid Category A	\$ 16,527	\$ 1,362	8.24%	16.63%	49.91%
Bid Category B: >5.6% > ROR >=3.8%					
Aircraft Related, Misc. Ground and Shop	1,024	49	4.82%	1.03%	1.81%
Vehicles	1,668	87	5.24%	1.68%	3.20%
Textiles, Clothing, Footwear, Etc.	2,980	139	4.65%	3.00%	5.08%
Furniture & Household Related	1,315	66	4.99%	1.32%	2.41%
Electrical (CV-2)	55	2	4.00%	0.06%	0.08%
Medical Related	413	17	4.19%	0.42%	0.63%
FSCs from CV-1 but Demil B/Q	0	0	—	0.00%	0.00%
Other	557	29	5.17%	0.56%	1.05%
Equipment (CV-1)	872	39	4.51%	0.88%	1.44%
Materials (CV-1)	119	5	4.04%	0.12%	0.18%
Electrical (CV-1)	115	6	5.34%	0.12%	0.22%
Bid Category B	\$ 9,118	\$ 440	4.82%	9.17%	16.11%
Bid Category C: 3.8% > ROR >=2%					
Aircraft Related, Misc. Ground and Shop	191	5	2.83%	0.19%	0.20%
Vehicles	7,828	180	2.29%	7.88%	6.58%
Textiles, Clothing, Footwear, Etc.	842	29	3.44%	0.85%	1.06%
Furniture & Household Related	20	1	3.42%	0.02%	0.02%
Electrical (CV-2)	30	1	2.05%	0.03%	0.02%
Medical Related	2,315	53	2.29%	2.33%	1.95%
FSCs from CV-1 but Demil B/Q	0	0	—	0.00%	0.00%
Other	744	21	2.82%	0.75%	0.77%
Equipment (CV-1)	2,103	62	2.94%	2.12%	2.27%
Materials (CV-1)	152	5	3.18%	0.15%	0.18%
Electrical (CV-1)	4,880	162	3.32%	4.91%	5.94%
Bid Category C	\$ 19,105	\$ 518	2.71%	19.22%	18.98%

* Data for FY 2000 are annualized based on 10 months.

** Includes CV-1 FSCs with Demil A, Since they are eligible for these locations. (Product Groups for CV-1 are indicated in parentheses. Electrical has two groups.)

29.13

Table III-2g
FY 2000* Adjusted Acquisition Values, Proceeds and RORs for CV-2 Product Subpool**
Alaska, Guam, Hawaii, and Puerto Rico
Categorized by Bid Category and Product Group

Bid Category, Product Group	FY 2000*			Percentage of FY 2000*	
	Adjusted Acquisition Value (\$000s)	Proceeds (\$000s)	DRMS Adjusted Gross ROR	Adj. Acq. Value	Proceeds
Bid Category D: 2% > ROR >= 1%					
Aircraft Related, Misc. Ground and Shop	551	8	1.46%	0.55%	0.29%
Vehicles	660	10	1.57%	0.66%	0.38%
Textiles, Clothing, Footwear, Etc.	557	8	1.44%	0.56%	0.29%
Furniture & Household Related	0	0	—	0.00%	0.00%
Electrical (CV-2)	1,665	18	1.08%	1.68%	0.66%
Medical Related	1,353	17	1.25%	1.36%	0.62%
FSCs from CV-1 but Demil B/Q	109	1	1.22%	0.11%	0.05%
Other	1,689	30	1.78%	1.70%	1.10%
Equipment (CV-1)	2,972	46	1.55%	2.99%	1.68%
Materials (CV-1)	250	4	1.44%	0.25%	0.13%
Electrical (CV-1)	1,100	17	1.50%	1.11%	0.61%
Bid Category D	\$ 10,906	\$ 159	1.46%	10.97%	5.82%
Bid Category E: ROR <1%					
Aircraft Related, Misc. Ground and Shop	3,445	19	0.55%	3.47%	0.69%
Vehicles	1,323	6	0.46%	1.33%	0.22%
Textiles, Clothing, Footwear, Etc.	53	0	0.00%	0.05%	0.00%
Furniture & Household Related	122	1	0.63%	0.12%	0.03%
Electrical (CV-2)	7,743	60	0.77%	7.79%	2.18%
Medical Related	530	3	0.56%	0.53%	0.11%
FSCs from CV-1 but Demil B/Q	2,733	2	0.07%	2.75%	0.07%
Other	909	3	0.34%	0.91%	0.11%
Equipment (CV-1)	5,600	35	0.63%	5.63%	1.30%
Materials (CV-1)	3,321	16	0.49%	3.34%	0.59%
Electrical (CV-1)	17,963	106	0.59%	18.07%	3.87%
Bid Category E	\$ 43,741	\$ 250	0.57%	44.01%	9.18%
TOTAL	\$ 99,397	\$ 2,729	2.75%	100.00%	100.00%

* Data for FY 2000 are annualized based on 10 months.

** Includes CV-1 FSCs with Demil A, since they are eligible for these locations. (Product Groups for CV-1 are indicated in parentheses. Electrical has two groups.)

29.14

Table III-2h
FY 2000* Adjusted Values, Proceeds and RORs for CV-2 Product Subpool**
Alaska, Guam, Hawaii, Puerto Rico
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 2000*			Percentage of FY 2000*	
	Adjusted Acquisition Value (\$000s)	Proceeds (\$000s)	DRMS Adjusted Gross ROR	Adj. Acq. Value	Proceeds
Aircraft Related, Misc. Ground and Shop					
Bid Category A: ROR >= 5.6%	13	1	9.08%	0.24%	1.38%
Bid Category B: 5.6% > ROR >= 3.8%	1,024	49	4.82%	19.60%	59.55%
Bid Category C: 3.8% > ROR >= 2%	191	5	2.83%	3.66%	6.53%
Bid Category D: 2% > ROR >= 1%	551	8	1.46%	10.55%	9.70%
Bid Category E: ROR < 1%	3,445	19	0.55%	65.95%	22.64%
Vehicles	\$ 17,066	\$ 678	3.97%	100.00%	100.00%
Bid Category A: ROR >= 5.6%	5,587	395	7.06%	32.74%	58.21%
Bid Category B: 5.6% > ROR >= 3.8%	1,668	87	5.24%	9.78%	12.89%
Bid Category C: 3.8% > ROR >= 2%	7,828	180	2.29%	45.87%	26.48%
Bid Category D: 2% > ROR >= 1%	660	10	1.57%	3.87%	1.53%
Bid Category E: ROR < 1%	1,323	6	0.46%	7.75%	0.89%

Textiles, Clothing, Footwear, Etc.	\$	5,633	\$	314	5.58%	100.00%	100.00%
Bid Category A: ROR >= 5.6%		1,201		139	11.56%	21.32%	44.15%
Bid Category B: 5.6% > ROR >= 3.8%		2,980		139	4.65%	52.90%	44.09%
Bid Category C: 3.8% > ROR >= 2%		842		29	3.44%	14.95%	9.21%
Bid Category D: 2% > ROR >= 1%		557		8	1.44%	9.89%	2.55%
Bid Category E: ROR < 1%		53		0	0.00%	0.94%	0.00%
Furniture & Household Related	\$	3,694	\$	234	6.33%	100.00%	100.00%
Bid Category A: ROR >= 5.6%		2,237		167	7.45%	60.57%	71.31%
Bid Category B: 5.6% > ROR >= 3.8%		1,315		66	4.99%	35.60%	28.08%
Bid Category C: 3.8% > ROR >= 2%		20		1	3.42%	0.53%	0.29%
Bid Category D: 2% > ROR >= 1%		0		0	—	0.00%	0.00%
Bid Category E: ROR < 1%		122		1	0.63%	3.30%	0.33%
Electrical (CV-2)	\$	9,493	\$	80	0.85%	100.00%	100.00%
Bid Category A: ROR >= 5.6%		0		0	—	0.00%	0.00%
Bid Category B: 5.6% > ROR >= 3.8%		55		2	0	0.58%	2.74%
Bid Category C: 3.8% > ROR >= 2%		30		1	0	0.32%	0.78%
Bid Category D: 2% > ROR >= 1%		1,665		18	0	17.54%	22.37%
Bid Category E: ROR < 1%		7,743		60	0	81.56%	74.11%
Medical Related	\$	5,213	\$	137	\$ 0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		602		47	0	11.56%	34.28%
Bid Category B: 5.6% > ROR >= 3.8%		413		17	0	7.92%	12.59%
Bid Category C: 3.8% > ROR >= 2%		2,315		53	0	44.41%	38.70%
Bid Category D: 2% > ROR >= 1%		1,353		17	0	25.95%	12.28%
Bid Category E: ROR < 1%		530		3	0	10.17%	2.15%
FSCs from CV-1 but Demil B/Q	\$	2,842	\$	3	\$ 0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		0		0	—	0.00%	0.00%
Bid Category B: 5.6% > ROR >= 3.8%		0		0	—	0.00%	0.00%
Bid Category C: 3.8% > ROR >= 2%		0		0	—	0.00%	0.00%
Bid Category D: 2% > ROR >= 1%		109		1	0	3.85%	41.96%
Bid Category E: ROR < 1%		2,733		2	0	96.15%	58.04%

* Data for FY 2000 are annualized based on 10 months.

** Includes CV-1 FSCs with Demil A, since they are eligible for these locations. (Product Groups for CV-1 are indicated in parentheses. Electrical has two groups.)

29.15

Table III-2h
FY 2000* Adjusted Acquisition Values, Proceeds and RORs for CV-2 Products Subpool**
Alaska, Guam, Hawaii, Puerto Rico
Categorized by Product Group and Bid Category

Product Group, Bid Category	FY 2000*			Percentage of FY 2000* Product Group				
	Adjusted Acquisition Value (\$000s)	Proceeds (\$000s)	DRMS Adjusted Gross ROR	Adj. Acq.Value	Proceeds			
Other	\$	4,792	\$	153	\$	0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		893		70	0	18.63%	45.83%	
Bid Category B: 5.6% > ROR >= 3.8%		557		29	0	11.61%	18.79%	
Bid Category C: 3.8% > ROR >= 2%		744		21	0	15.53%	13.71%	
Bid Category D: 2% > ROR >= 1%		1,689		30	0	35.25%	19.62%	
Bid Category E: ROR < 1%		909		3	0	18.97%	2.05%	
Equipment (CV-1)	\$	16,806	\$	638	\$	0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		5,259		456	0	31.29%	71.39%	
Bid Category B: 5.6% > ROR >= 3.8%		872		39	0	5.19%	6.17%	
Bid Category C: 3.8% > ROR >= 2%		2,103		62	0	12.51%	9.69%	
Bid Category D: 2% > ROR >= 1%		2,972		46	0	17.69%	7.20%	
Bid Category E: ROR < 1%		5,600		35	0	33.32%	5.56%	
Materials (CV-1)	\$	4,506	\$	113	\$	0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		665		84	0	14.75%	73.92%	
Bid Category B: 5.6% > ROR >= 3.8%		119		5	0	2.65%	4.26%	
Bid Category C: 3.8% > ROR >= 2%		152		5	0	3.36%	4.26%	
Bid Category D: 2% > ROR >= 1%		250		4	0	5.55%	3.20%	
Bid Category E: ROR < 1%		3,321		16	0	73.69%	14.37%	
Electrical (CV-1)	\$	24,128	\$	295	\$	0	100.00%	100.00%
Bid Category A: ROR >= 5.6%		71		4	0	0.29%	1.48%	

Bid Category B: 5.6% > ROR >= 3.8%	115	6	0	0.48%	2.08%
Bid Category C: 3.8% > ROR >= 2%	4,880	162	0	20.22%	55.01%
Bid Category D: 2% > ROR >= 1%	1,100	17	0	4.56%	5.61%
Bid Category E: ROR < 1%	17,963	106	0	74.45%	35.82%
TOTAL	\$ 99,397	\$ 2,729	2.75%		

* Data for FY 2000 are annualized based on 10 months.

** Includes CV-1 FSCs with Demil A, since they are eligible for these locations. (Product Groups for CV-1 are indicated in parentheses. Electrical has two groups.)

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1998 (Tables III-2c and III-2f)(11). The corresponding data for the CV-2 Items sold at Delivery Points outside of CONUS in FY 2000 (through July) are presented to Tables III-2g and III-2h.

Figures III-1a-c below present the general pattern of the DRMS Adjusted Gross RORs for each of the five Bid Categories over each of the three Product Subpools for over the fiscal years 1985-2000.

DRMS Adjusted Gross RORs and other data for the fiscal years 1985-2000 by FSC and DEMIL Code will be included in the data supplement in machine readable format.

B. BID PROCESS

A bid will consist of thirteen (13) "Bid Percentages" specified by the offeror, with one such Bid Percentage applicable to each Product Subpool Bid Category. After the contract is awarded, the Contractor's Purchase Price for an item of Property will be determined by multiplying (i) the applicable Bid Percentage for the Product Subpool Bid Category in which the Property is listed, times (ii) the item's Acquisition Value. The combination of FSC, DEMIL Code and location determines the Product Subpool Bid Category to which the Property belongs.

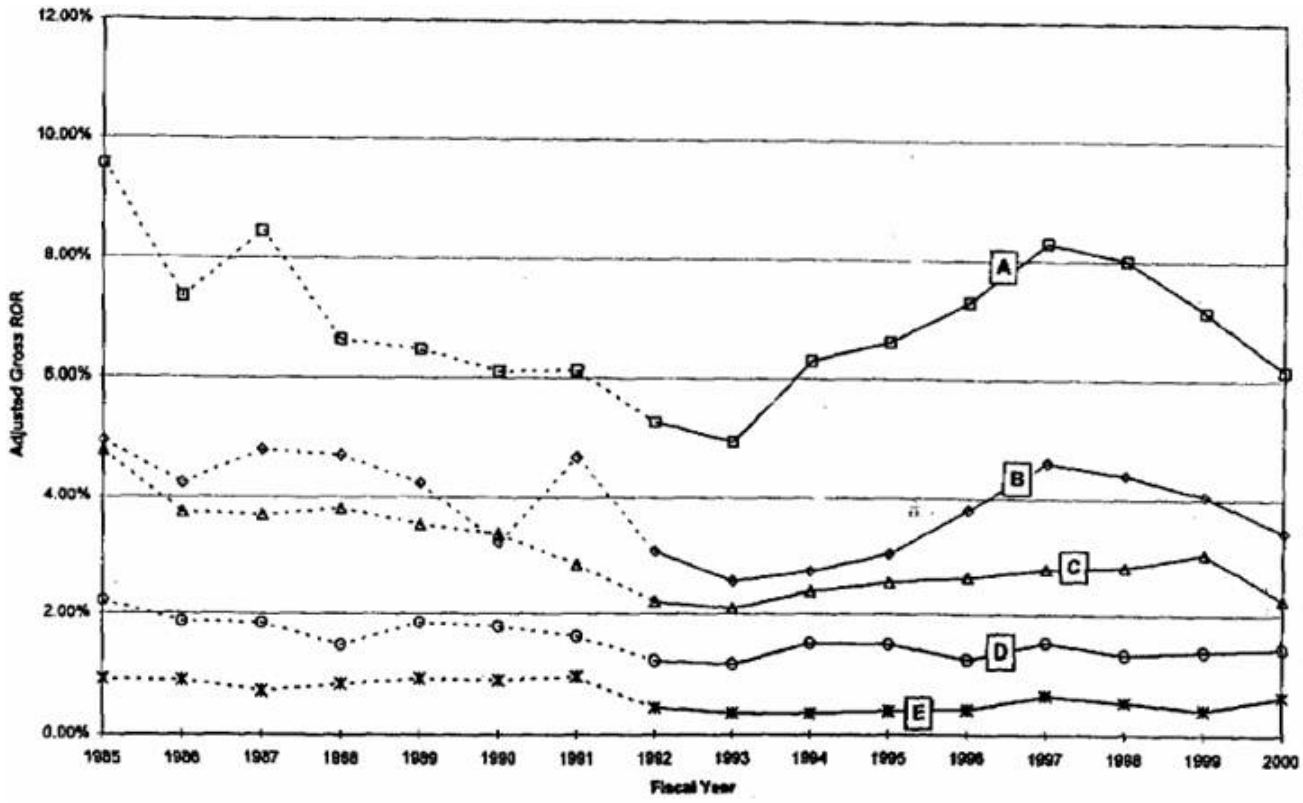
The winning bid will be determined with reference to a hypothetical "Bid Schedule Pool" of Property as follows.

- (1) The "Item Bid Page" in Attachment A of the accompanying "Bidding Instructions and Bid Forms" is for formally registering the offeror's Bid Percentages.
- (2) Table III-3 below presents the "Bid Schedule Pool." The Bid Schedule Pool, which is based on trends in DRMS historical data by Product Subpool Bid Category, assigns a "Product Subpool Acquisition Value" to each Product Subpool Bid Category.

(11) We do not present 1999 or 2000 data here because during those fiscal years, the CV-1 Purchaser had responsibility for almost all of CV-1 product flow (the exception being the initial six month phase-in period during which product flow was gradually shifted from DRMS to the CV-1 Purchaser).

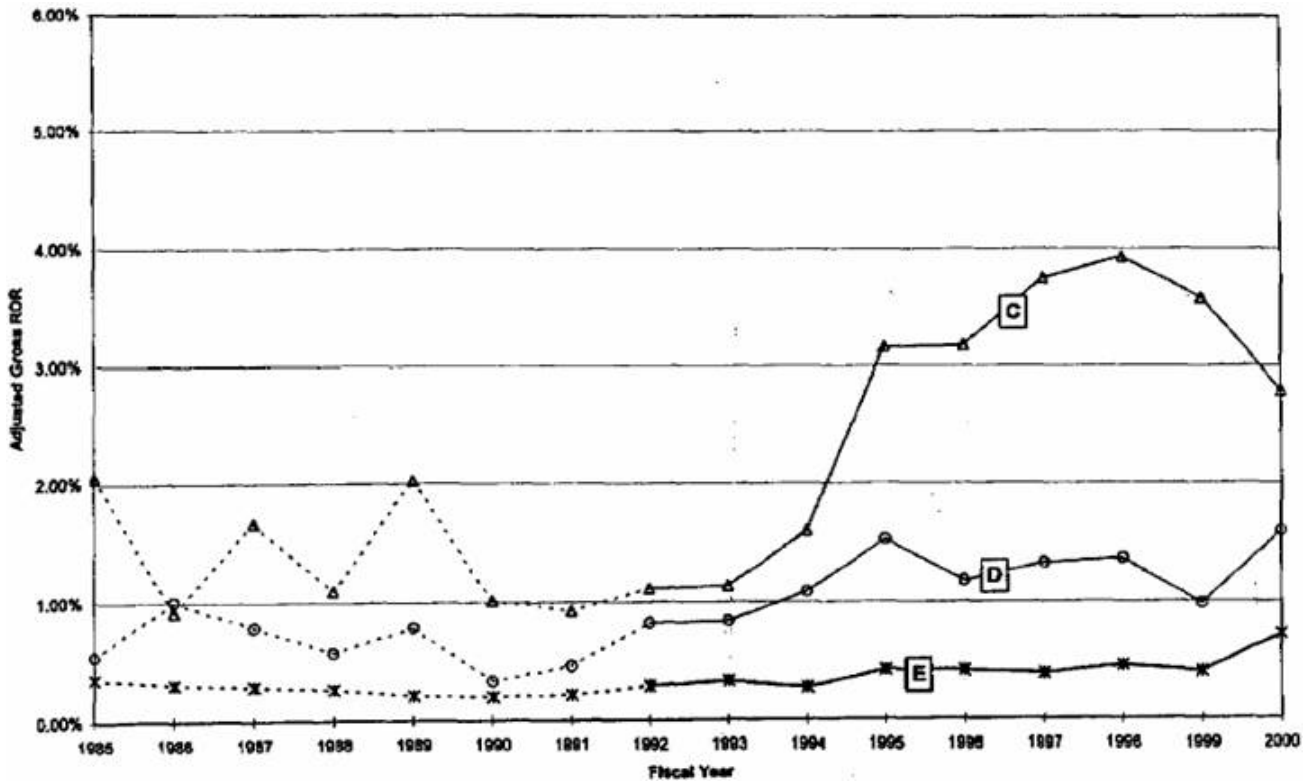
30

Figure III-1a
Adjusted Gross ROR by Bid Category
CV-2 DEMIL A
Fiscal Years 1985 - 2000*



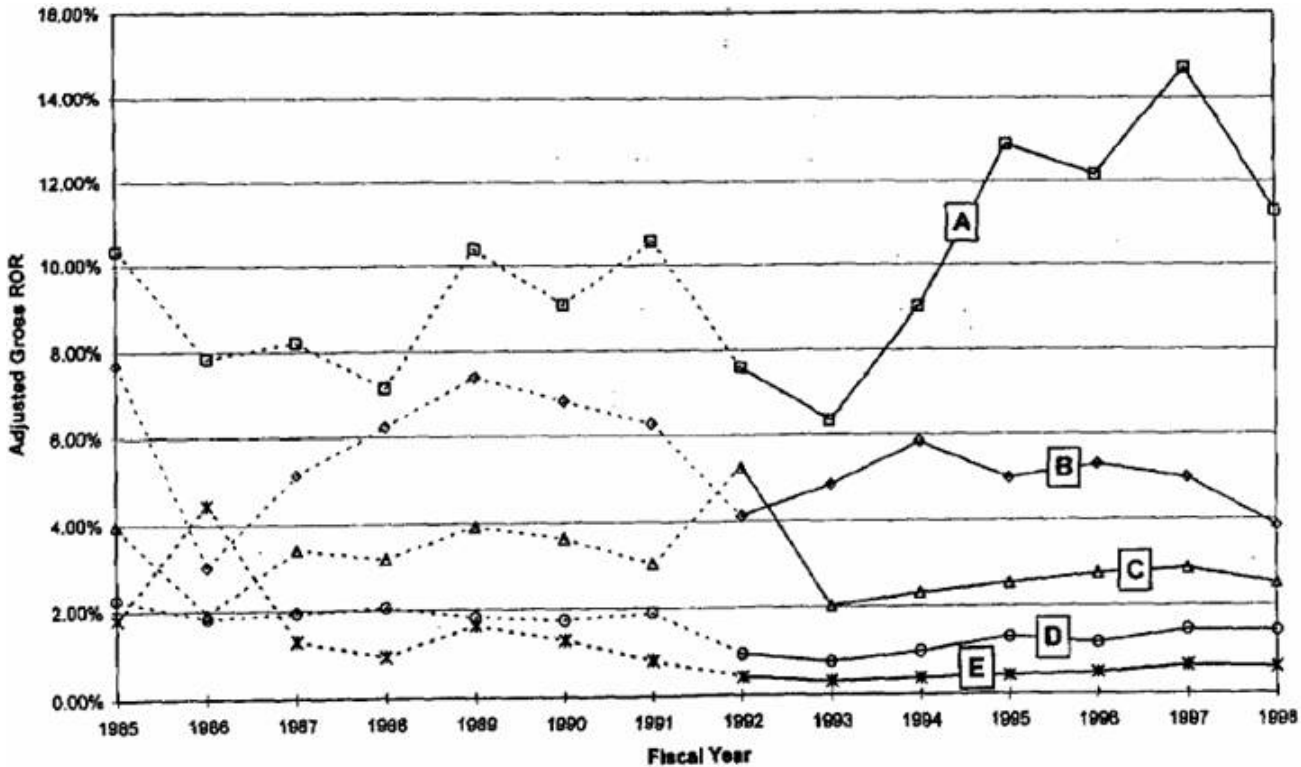
* Data for FY 2000 are limited to 10 months through July.

Figure III-1b
Adjusted Gross ROR by Bid Category
CV-2 DEMIL B or Q
Fiscal Years 1986 - 2000*



* Data for FY 2000 are limited to 10 months through July.

Figure III-1c
Adjusted Gross ROR by Bid Category
CV-1 Product Pool
Fiscal Years 1985 - 1998*



30.3

TABLE III-3
Bid Schedule Pool

Bid Category	Product Subpool Acquisition Value for CV-2 Items, DEMIL A	Product Subpool Acquisition Value for CV-2 Items, DEMIL B or Q	Product Subpool Acquisition Value for CV-1 Items*
A	\$ 50,000,000	\$ 0	\$ 50,000,000
B	\$ 100,000,000	\$ 0	\$ 100,000,000
C	\$ 150,000,000	\$ 50,000,000	\$ 200,000,000
D	\$ 100,000,000	\$ 600,000,000	\$ 500,000,000
E	\$ 600,000,000	\$ 1,000,000,000	\$ 500,000,000
Total	\$ 1,000,000,000	\$ 1,650,000,000	\$ 1,350,000,000

*All CV-1 Items are DEMIL Code A.

- (3) DRMS will multiply each of the thirteen Bid Percentages from the Item Bid Page by (1) the respective Product Subpool Acquisition Value in Table III-3 above and (2) the respective "Product Subpool Weight" (100% for CV-2 DEMIL A items, 100% for CV-2 DEMIL B or Q items, and 50% for CV-1 Items) and add the resulting amounts together to determine a "Bid Price" for the Bid Schedule Pool.(12)
- (4) The winning bidder will be determined as that bidder with the highest Bid Price for the Bid Schedule Pool.
- (5) Table III-4 below presents a worksheet for calculating the Bid Price. (This table is identical to the Item Bid Worksheet in Attachment A of the accompanying Bidding Instructions and Bid Forms.)

(12) The Product Subpool Weight for CV-1 Property is lower because referral of CV-1 Property is not scheduled to begin, if at all, until September of 2003.

Table III-4
Item Bid Worksheet

Column 1 Product	Column 2 Bid	Column 3 Product Subpool	Column 4 Bid Percentage	Column 5 Product	Column 6 Bid Price Component	Column 7 Total Bid Price
---------------------	-----------------	-----------------------------	----------------------------	---------------------	---------------------------------	-----------------------------

Subpool	Category	Acquisition Value	(Entered on Item Bid Page)	Subpool Weight	(Col 3 X Col. 4 X Col. 5)	
CV-2 DEMIL A	A	\$ 50,000,000	%	100.0%	\$	
	B	\$ 100,000,000	%		\$	
	C	\$ 150,000,000	%		\$	
	D	\$ 100,000,000	%		\$	
	E	\$ 600,000,000	%		\$	
CV-2 DEMIL A	Total	\$ 1,000,000,000				
CV-2 DEMIL B or Q	A*	N/A	N/A	N/A	N/A	
	B*	N/A	N/A	N/A	N/A	
	C	\$ 50,000,000	%	100.0%	\$	
	D	\$ 600,000,000	%		\$	
	E	\$ 1,000,000,000	%		\$	
CV-2 DEMIL B or O	Total	\$ 1,650,000,000				
CV-1	A	\$ 50,000,000	%		50.0%	\$
	B	\$ 100,000,000	%	\$		
	C	\$ 200,000,000	%	\$		
	D	\$ 500,000,000	%	\$		
	E	\$ 500,000,000	%	\$		
CV-1	Total	\$ 1,350,000,000			\$	
Grand Total		\$ 4,000,000,000			\$	

To calculate the Bid Price that corresponds to the Bid Percentages entered in the Item Bid Page:

- Step 1: Copy the 13 Bid Percentages entered in your Item Bid Page (see Bidding Instructions and Bid Forms) to Column 4 of this worksheet for each combination of Bid Category and Product Subpool.
- Step 2: For each Bid Category and Product Subpool combination, multiply the Product Subpool Acquisition Value in Column 3 by the corresponding Bid Percentage in Column 4 and the Product Subpool Weight in Column 5. (Convert percentages to decimal fractions for this calculation by dividing them by 100.) For each row, write the dollar amount of the resulting product in Column 6.
- Step 3: Total the entries in Column 6 and write the dollar amount of the resulting sum in the "Grand Total" row of Column 7. This is the Bid Price that will be used to determine the winning bidder.

*No DEMIL B or Q items are assigned to Bid Categories A or B.

C. ILLUSTRATION OF THE DETERMINATION OF THE WINNING BID

Assume that Bidder A, upon reviewing the historic DRMS data, arrives at its bid taking into account the trends and volatility in the DRMS data, the bidder's expected cost of operations, its required return to capital and its required profit margin consistent with the risks involved. Accounting for these factors, Bidder A determines that it is willing to bid the Hypothetical Bid Percentages specified in Table III-5.

Table III-5
Hypothetical Bid Percentages

Product Subpool	Bid Category	Bidder A	Bidder B
CV-2 DEMIL A	A	0.5580%	0.6138%
	B	0.2720%	0.2448%
	C	0.1680%	0.1512%
	D	0.0840%	0.0756%
	E	0.0250%	0.0275%
CV-2 DEMIL B or Q	A	N/A	N/A
	B	N/A	N/A
	C	0.2100%	0.1890%
	D	0.0720%	0.0648%
	E	0.0200%	0.0220%
CV-1	A	0.8100%	0.8910%
	B	0.2720%	0.2448%
	C	0.1680%	0.1512%
	D	0.0840%	0.0756%
	E	0.0250%	0.0275%

Further, assume that Bidder B, upon reviewing the same data and taking into account the same factors, determines that it is willing to bid a somewhat different set of Hypothetical Bid Percentages also specified in Table III-5. In particular, for all of the Product Subpools, Bidder B's Hypothetical Bid Percentages are higher than Bidder A's for Categories A and E but lower for Categories B, C and D.

Using the Item Bid Worksheet, Table III-4 above, to apply the Hypothetical Bid Percentages to the Bid Schedule Pool to compute Bid Prices for Bidder A and Bidder B, yields the following results:

Bidder A's Bid Price:	\$	2,553,000
Bidder B's Bid Price:	\$	2,476,500

Thus, Bidder A is the winning bidder.

D. ILLUSTRATIVE FINANCIAL MODEL

Tables III-7(a) and III-7(b) below present two scenarios for a monthly illustrative financial model of the proposed transaction with certain assumptions listed at the beginning of each table.

Figures used in these tables, and all other forward-looking figures in the IFB, are for illustrative purposes only. DRMS cannot predict the flow of Property to be sold under this contract and DRMS expressly disavows any implication to the contrary. Moreover, historic DRMS operating data are not necessarily reliable indicators of future Property deliveries under this contract, the quality or resale value of such Property or future operating costs. DRMS does not make any representation of any character concerning the Property to be sold hereunder.

The scenarios in Tables III-7(a) and III-7(b) differ with respect to two assumptions: (1) the annual decline in Acquisition Value of property referred for sale to Purchaser, and (2) the assumed enhancement to the Purchaser Gross ROR over DRMS. These differences are described in Table III-6 below.

Table III-6
Assumption Differences for Alternative Model Scenarios

Assumption	Table III-7(a)	Table III-7(b)
Annual Decline in Acquisition Value of Property Referred for Sale to Purchaser	7.00%	5.00%
Purchaser Enhancement of DRMS Gross ROR		
Purchaser Months 1-16	0%	10%
Purchaser Months 17-30	10%	20%
Purchaser Months 31+	20%	30%

In both scenarios, the Contractor's Purchase Price is assumed to be equal to 20% of DRMS Baseline Net Proceeds minus a risk discount of 30%. The Purchaser is also assumed to have operating expenses equal to 80% of DRMS Baseline Expenses.

Figures III-9 and III-10 below present the profits to the Contractor for both scenarios (Figure III-9 over the full seven year Performance Period (plus several months for the Wind-Up) and Figure III-10 over the first 36 months of the Performance Period).

ASSUMPTIONS AND PARAMETERS IX ILLUSTRATIVE 7 YEAR FINANCIAL MODEL

Table III-7(a)

Acquisition Value of Property Referred for Sale to Purchaser (000s)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
CV-II Property	\$ 2,540,316	\$ 2,362,494	\$ 2,197,120	\$ 2,043,321	\$ 1,900,289	\$ 1,767,269	\$ 1,643,560
CV-I Property	\$ 0	\$ 0	\$ 1,319,450	\$ 1,227,089	\$ 1,141,192	\$ 1,061,309	\$ 987,017
Total Referred	\$ 2,540,316	\$ 2,362,494	\$ 3,516,570	\$ 3,270,410	\$ 3,041,481	\$ 2,828,578	\$ 2,630,577

Annual Decline In Acquisition Value of Property Referral for Sale to Purchaser

7,00%

During the 1st year of operation, an increasing percentage of the Property is Referred for Sale to Purchaser:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Phase-in percentages	50%	60%	70%	80%	90%	100%	100%	100%	100%	100%

Acquisition Value of Property Sold by Purchaser

Months	
1 - 3	No Property sold while the Purchaser sets up operations
4 - 6	70% of the Acquisition Value of the Property Referred for Sale 3 months earlier.
7 - 12	85% of the Acquisition Value of the Property Referred for Sale 3 months earlier.
13 - 85	100% of the Acquisition Value of the Property Referred for Sale 3 months earlier.
86	50% of the Acquisition Value of the Property In Inventory,
87	100% of the Acquisition Value of the Property in Inventory.

DRMS Baseline Gross Proceeds

1.30% of Acquisition Value of the Property Referred for Sale

DRMS Baseline Expenses

50% of DRMS Baseline Gross Proceeds (equals 0.650% of Acquisition Value Sold by Purchaser)

DRMS Baseline Net Proceeds

DRMS Baseline Gross Proceeds minus DRMS Baseline Expenses

Purchaser Gross ROR

Months	DRMS Gross ROR	Purchaser Enhancement	Purchaser Gross ROR
1-16	1.30%	0%	1.30%
17 - 30	1.30%	10%	1.43%
31+	1.30%	20%	1.56%

Purchaser Gross Proceeds

This is the product of (1) the Acquisition Value of Property Sold by Purchaser and (2) Purchaser Gross ROR.

Total Purchaser Expenses

Total Purchaser Expenses are the sum of start-up costs and Purchaser Expenses.

Purchaser Expenses are based upon DRMS Baseline Expenses.

Purchaser Expenses equal:

80% of DRMS Baseline Expenses for the greater of the Acquisition Value of
(a) Property Referred for Sale, or (b) Property Sold**Purchaser Net Proceeds (Working Capital Advance)**

Calculated as the difference between Purchaser Gross Proceeds and Total Purchaser Expenses.

Purchaser Operating Cash BalanceEquate Total Purchaser Expenses for the following month
(starting in month 9 per contract requirements for Distribution payments.)**Payment to DRMS for Property Referred for Sale**

The Contractor's Purchase Price is based upon:

1.30%	DRMS Gross ROR
50.00%	Percentage of Gross Proceeds used for Purchaser Expenses
20.00%	Purchaser Share
30.00%	Purchaser's [Risk] Discount
0.0910%	Purchase Price as a percentage of Acquisition Value of Property Referred

34.1

Table III-7(a)
CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	AI Award 0	Year 1											
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
I. Assumptions & Cash Flows													
A. Purchaser Inventory													
1. Acq. Value of Property Referred for Sale	0	105,847	127,016	148,815	169,354	190,524	211,693	211,693	211,693	211,693	211,693	211,693	211,693
2. Acq. Value of Property Sold	0	0	0	0	74,093	88,911	103,730	143,951	161,945	179,939	179,939	179,939	179,939
3. Acq. Value of Inventory	0	105,847	232,862	381,047	476,309	577,922	685,885	735,627	803,375	835,129	866,883	896,637	930,391
B. DRMS Baseline Proceeds (no sales delay, no phase-in)													
1. DRMS Baseline Gross Proceeds		2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752
2. DRMS Baseline Expenses		(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)
3. DRMS Baseline Net Proceeds		1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376
C. Purchaser Cashflows													
1. Purchaser Gross Proceeds	0	0	0	0	963	1,156	1,348	1,871	2,105	2,339	2,339	2,339	2,339
2. Total Purchaser Expenses	0	(750)	(760)	(771)	(881)	(991)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)
3. Purchaser Net Proceeds (Direct Cost Advance)	0	(750)	(760)	(771)	83	165	248	771	1,004	1,238	1,238	1,238	1,238
4. Purchaser Operating Cash Balance		0	0	0	0	0	0	0	0	1,101	1,101	1,101	1,101
5. Purchaser Working Capital Advance Balance		(750)	(1,511)	(2,281)	(2,199)	(2,034)	(1,186)	(1,016)	(11)	0	0	0	0
6. Available for Distribution		0	0	0	0	0	0	0	0	127	1,238	1,238	1,238
D. Seller Indirect Costs *													
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	0	0	0	0	0	0	0	0	0	101	991	991	991
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	0	0	0	0	0	0	0	0	0	101	991	991	991
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions													

A. Contractor Cashflows													
1. Payment to DRMS for Property Referred for Sale	0	0	(96)	(116)	(135)	(154)	(173)	(193)	(193)	(193)	(193)	(193)	(193)
2. Direct Cost (Advances) Repayments	0	(750)	(760)	(771)	83	165	248	771	1,004	11	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	(750)	(1,511)	(2,281)	(2,199)	(2,034)	(1,788)	(1,016)	(11)	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	0	0	0	0	0	0	0	0	0	25	248	248	248
5. Payment Deposit	(500)	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	0	0	0
7. Retention Fund - Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
8. Contractor Net Cashflow - This Month	(500)	(750)	(857)	(886)	(52)	11	74	578	812	(156)	55	55	55
9. Contractor Cumulative Net Cashflow	(500)	(1,250)	(2,107)	(2,993)	(3,046)	(3,036)	(2,960)	(2,382)	(1,671)	(1,727)	(1,672)	(1,617)	(1,562)
B. DRMS Cashflows													
1. Payment from Contractor for Property Referred for Sale	0	0	96	116	135	154	173	193	193	193	193	193	193
2. Gross Distribution Payments [80% of Net Proceeds]	0	0	0	0	0	0	0	0	0	101	991	991	991
3. Property Payments + Gross Distributions	0	0	96	116	135	154	173	193	193	294	1,183	1,183	1,183
4. Payment Deposit	500	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	500	0	96	116	135	154	173	193	193	294	1,183	1,183	1,183
8. DRMS Cumulative Cashflow	500	500	596	712	847	1,001	1,174	1,367	1,560	1,853	3,037	4,220	5,404

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term “Working Capital Advance” for both.

34.2

Table III-7(a)
CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	Year 2											
	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Acq. Value of Property Referred for Sale	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875
2. Acq. Value of Property Sold	211,693	211,693	211,693	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875	196,875
3. Acq. Value of Inventory	915,572	900,754	885,935	885,935	885,935	885,935	885,935	885,935	885,935	885,935	885,935	885,935
B. DRMS Baseline Proceeds (no sales delay, no phase-in)												
1. DRMS Baseline Gross Proceeds	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559
2. DRMS Baseline Expenses	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)
3. DRMS Baseline Net Proceeds	1,280	1,280	1,280	1,280	1,280	1,280	1,280	1,280	1,280	1,280	1,280	1,280
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	2,752	2,752	2,752	2,559	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815
2. Total Purchaser Expenses	(1,101)	(1,101)	(1,101)	(1,024)	(1,024)	(1,024)	(1,024)	(1,024)	(1,024)	(1,024)	(1,024)	(1,024)
3. Purchaser Net Proceeds (Direct Cost Advance)	1,651	1,651	1,651	1,536	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
4. Purchaser Operating Cash Balance	1,101	1,101	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,524
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	1,651	1,651	1,728	1,536	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,291
D. Seller Indirect Costs *												
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	1,321	1,321	1,383	1,228	1,433	1,433	1,433	1,433	1,433	1,433	1,433	1,033
3. Seller Indirect Cost Advance repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,321	1,321	1,383	1,228	1,433	1,433	1,433	1,433	1,433	1,433	1,433	1,033
5. Seller Indirect Cost Advances [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payment to DRMS for Property Referred for Sale	(193)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	330	330	346	307	358	358	358	358	358	358	358	258
5. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	0	(26)
7. Retention Fund - Balance	0	0	0	0	0	0	0	0	0	0	0	(62)
8. Contractor Net Cashflow - This Month	138	151	166	128	179	179	179	179	179	179	143	53
9. Contractor Cumulative Net	(1,424)	(1,273)	(1,107)	(979)	(799)	(620)	(441)	(262)	(83)	96	240	293

Cashflow												
B. DRMS Cashflows												
1. Payment from Contractor for Property Referred for Sale	193	179	179	179	179	179	179	179	179	179	179	179
2. Gross Distribution Payments [80% of Net Proceeds]	1,321	1,321	1,383	1,228	1,433	1,433	1,433	1,433	1,433	1,433	1,433	1,033
3. Property Payments + Gross Distributions	1,514	1,500	1,562	1,408	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,212
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	36	26
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	1,514	1,500	1,562	1,408	1,612	1,612	1,612	1,612	1,612	1,612	1,648	1,238
8. DRMS Cumulative Cashflow	6,917	8,417	9,979	11,384	12,999	14,611	16,224	17,836	19,448	21,061	22,709	23,947

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs on The IFB text uses the collective term “Working Capital Advance” for both.

34.3

Table III-7(a)
CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	Year 3											
	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Acq. Value of Property Referred for Sale	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047
2. Acq. Value of Property Sold	196,875	196,875	196,875	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047	293,047
3. Acq. Value of Inventory	982,168	1,078,281	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454	1,174,454
B. DRMS Baseline Proceeds (no sales delay, no phase-in)												
1. DRMS Baseline Gross Proceeds	3,810	3,810	3,810	3,810	3,810	3,810	3,810	3,810	3,810	3,810	3,810	3,810
2. DRMS Baseline Expenses	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)	(1,905)
3. DRMS Baseline Net Proceeds	1,905	1,905	1,905	1,905	1,905	1,905	1,905	1,905	1,905	1,905	1,905	1,905
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	2,815	2,815	2,815	4,191	4,191	4,191	4,572	4,572	4,572	4,572	4,572	4,572
2. Total Purchaser Expenses	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)	(1,524)
3. Purchaser Net Proceeds (Direct Cost Advance)	1,291	1,291	1,291	2,667	2,667	2,667	3,048	3,048	3,048	3,048	3,048	3,048
4. Purchaser Operating Cash Balance	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	1,291	1,291	1,291	2,667	2,667	2,667	3,048	3,048	3,048	3,048	3,048	3,048
D. Seller Indirect Costs *												
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	1,033	1,033	1,033	2,133	2,133	2,133	2,438	2,438	2,438	2,438	2,438	2,438
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,033	1,033	1,033	2,133	2,133	2,133	2,438	2,438	2,438	2,438	2,438	2,438
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payment to DRMS for Property Referred for Sale	(179)	(267)	(267)	(267)	(267)	(267)	(267)	(267)	(267)	(267)	(267)	(267)
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	258	258	258	533	533	533	610	610	610	610	610	610
5. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	(26)	(26)	(26)	(53)	(53)	(53)	(61)	(61)	(61)	(18)	0	0
7. Retention Fund - Balance	(87)	(113)	(139)	(192)	(246)	(299)	(360)	(421)	(482)	(500)	(500)	(500)
8. Contractor Net Cashflow - This Month	53	34	34	213	213	213	282	282	282	325	343	343
9. Contractor Cumulative Net Cashflow	346	312	278	491	705	918	1,200	1,482	1,764	2,089	2,431	2,774
B. DRMS Cashflows												
1. Payment from Contractor for Property Referred for Sale	179	267	267	267	267	267	267	267	267	267	267	267
2. Gross Distribution Payments [80% of Net Proceeds]	1,033	1,033	1,033	2,133	2,133	2,133	2,438	2,438	2,438	2,438	2,438	2,438
3. Property Payments + Gross Distributions	1,212	1,300	1,300	2,400	2,400	2,400	2,705	2,705	2,705	2,705	2,705	2,705
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	26	26	26	53	53	53	61	61	61	18	0	0
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	1,238	1,326	1,326	2,453	2,453	2,453	2,766	2,766	2,766	2,723	2,705	2,705
8. DRMS Cumulative Cashflow	25,186	26,511	27,837	30,290	32,744	35,197	37,963	40,729	43,494	46,217	48,922	51,627

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs on The IFB text uses the collective term “Working Capital Advance” for both.

Table III-7(a)
CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	Wind-up				Totals / Balances	Annual Summary							Wind-Up	Totals
	Month 85	Month 86	Month 87	Month 88		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
I. Assumptions & Cash Flows														
A. Purchaser Inventory														
1. Acq. Value of Property Referred for Sale	0	0	0	0	19,872,887	2,222,777	2,362,494	3,516,570	3,270,410	3,041,481	2,828,578	2,630,577	0	19,872,887
2. Acq. Value of Property Sold	219,215	366,871	366,871	0	19,872,887	1,292,386	2,406,950	3,228,051	3,331,950	3,098,713	2,881,803	2,680,077	952,956	19,872,887
3. Acq. Value of Inventory	733,741	366,871	0	0	0	930,391	885,935	1,174,454	1,112,914	1,055,662	1,002,456	952,956	0	0
B. DRMS Baseline Proceeds (no sales delay, no phase-in)														
1. DRMS Baseline Gross Proceeds														
1. DRMS Baseline Gross Proceeds	0	0	0	0	262,476	33,024	30,712	45,715	42,515	39,539	36,772	34,198	0	262,476
2. DRMS Baseline Expenses														
2. DRMS Baseline Expenses	0	0	0	0	(131,236)	(16,512)	(15,356)	(22,858)	(21,258)	(19,770)	(18,386)	(17,099)	0	(131,238)
3. DRMS Baseline Net Proceeds														
3. DRMS Baseline Net Proceeds	0	0	0	0	131,236	16,512	15,356	22,858	21,258	19,770	18,386	17,099	0	131,238
C. Purchaser Cashflows														
1. Purchaser Gross Proceeds														
1. Purchaser Gross Proceeds	3,420	5,723	5,723	0	300,536	16,901	33,338	48,447	51,978	48,340	44,958	41,809	14,866	300,538
2. Total Purchaser Expenses														
2. Total Purchaser Expenses	(1,140)	(1,908)	(1,908)	0	(109,977)	(11,858)	(12,516)	(18,286)	(17,326)	(16,113)	(14,985)	(13,936)	(4,955)	(109,977)
3. Purchaser Net Proceeds (Direct Cost Advance)														
3. Purchaser Net Proceeds (Direct Cost Advance)	2,280	3,815	3,815	0	190,558	4,943	20,822	30,161	34,652	32,227	29,971	27,873	9,911	190,558
4. Purchaser Operating Cash Balance														
4. Purchaser Operating Cash Balance	1,908	1,908	0	0	0	1,101	1,524	1,524	1,417	1,140	1,226	1,140	0	0
5. Purchaser Working Capital Advance Balance														
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution														
6. Available for Distribution	1,512	3,815	5,723	0	190,558	3,842	28,399	30,161	34,765	32,504	29,885	27,959	11,051	190,558
D. Seller Indirect Costs *														
1. Seller Indirect Costs														
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution														
2. DRMS Gross Distribution	1,210	3,052	4,579	0	152,447	3,073	16,319	24,129	27,807	26,003	23,908	22,387	8,841	152,447
3. Seller Indirect Cost Advances repaid to Contractor														
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]														
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,210	3,052	4,579	0	152,447	3,073	16,319	24,129	27,807	26,003	23,908	22,387	8,841	152,447
5. Seller Indirect Cost Advance [funded by Contractor]														
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]														
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions														
A. Contractor Cashflows														
1. Payment to DRMS for Property Referred for Sale														
1. Payment to DRMS for Property Referred for Sale	(199)	0	0	0	(18,084)	(1,830)	(2,163)	(3,113)	(2,995)	(2,785)	(2,590)	(2,409)	(199)	(18,084)
2. Direct Cost (Advances) Repayments														
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments														
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments														
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds														
4. Distributions = 20% of Net Proceeds	302	763	1,145	0	38,112	768	4,080	6,032	6,952	6,501	5,977	5,592	2,210	38,112
5. Payment Deposit														
5. Payment Deposit	0	0	0	500	0	(500)	0	0	0	0	0	0	500	0
6. Retention Fund (Payments) Credits														
6. Retention Fund (Payments) Credits	0	0	0	500	0	0	(62)	(438)	0	0	0	0	500	0
7. Retention Fund - Balance														
7. Retention Fund - Balance	(500)	(500)	(500)	0	0	0	(82)	(500)	(500)	(500)	(500)	(500)	0	0
8. Contractor Net Cashflow - This Month														
8. Contractor Net Cashflow - This Month	103	763	1,145	1,000	20,027	(1,562)	1,855	2,481	3,957	3,716	3,387	3,183	3,011	20,027
9. Contractor Cumulative Net Cashflow														
9. Contractor Cumulative Net Cashflow	17,120	17,883	19,027	20,027	20,027	(1,562)	293	2,774	6,731	10,447	13,834	17,017	20,027	20,027
B. DRMS Cashflows														
1. Payment from Contractor for Property Referred for Sale														
1. Payment from Contractor for Property Referred for Sale	199	0	0	0	18,084	1,830	2,163	3,113	2,995	2,785	2,590	2,409	199	18,084
2. Gross Distribution Payments [80% of Net Proceeds]														
2. Gross Distribution Payments [80% of Net Proceeds]	1,210	3,052	4,579	0	152,447	3,073	16,319	24,129	27,807	26,003	23,906	22,367	8,841	152,447
3. Property Payments + Gross Distributions														
3. Property Payments + Gross Distributions	1,409	3,052	4,579	0	170,531	4,904	18,482	27,241	30,802	28,788	26,496	24,776	9,040	170,531
4. Payment Deposit														
4. Payment Deposit	0	0	0	(500)	0	500	0	0	0	0	0	0	(500)	0
5. Retention Fund (Payments) Credits														
5. Retention Fund (Payments) Credits	0	0	0	(500)	0	0	62	438	0	0	0	0	(500)	0
6. Less Seller Indirect Costs														
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month														
7. DRMS Net Cashflow - This Month	1,409	3,052	4,579	(1,000)	170,531	5,404	18,544	27,679	30,802	28,788	26,496	24,776	8,040	170,531
8. DRMS Cumulative Cashflow														
8. DRMS Cumulative Cashflow	163,900	166,492	171,531	170,531	170,531	5,404	23,947	51,627	82,429	111,217	137,715	162,491	170,531	170,531

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term "Working Capital Advance" for both.

ASSUMPTIONS AND PARAMETERS IN ILLUSTRATIVE 7 YEAR FINANCIAL MODEL

Table III-7(b)

Acquisition Value of Property Referred for Sale to Purchaser (000s)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
CV-II Property	\$ 2,540,316	\$ 2,413,301	\$ 2,292,635	\$ 2,178,004	\$ 2,069,104	\$ 1,965,649	\$ 1,867,366
CV-I Property	\$ 0	\$ 0	\$ 1,376,811	\$ 1,307,970	\$ 1,242,572	\$ 1,180,443	\$ 1,121,421
Total Preferred	\$ 2,540,316	\$ 2,413,301	\$ 3,669,446	\$ 3,485,974	\$ 3,311,675	\$ 3,146,092	\$ 2,988,787

1. DRMS Baseline Gross Proceeds	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752	2,752
2. DRMS Baseline Expenses	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	(1,376)
3. DRMS Baseline Net Proceeds	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376	1,376
C. Purchaser Cashflows													
1. Purchaser Gross Proceeds	0	0	0	0	1,060	1,271	1,483	2,059	2,316	2,573	2,573	2,573	2,573
2. Total Purchaser Expenses	0	(750)	(760)	(771)	(881)	(991)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)	(1,101)
3. Purchaser Net Proceeds (Direct Cost Advance)	0	(750)	(760)	(771)	179	281	383	958	1,215	1,472	1,472	1,472	1,472
4. Purchaser Operating Cash Balance	0	0	0	0	0	0	0	0	0	1,101	1,101	1,101	1,101
5. Purchaser Working Capital Advance Balance	(750)	(1,511)	(2,281)	(2,103)	(1,822)	(1,439)	(482)	0	0	0	0	0	0
6. Available for Distribution	0	0	0	0	0	0	0	733	372	1,472	1,472	1,472	1,472
D. Seller Indirect Costs *													
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	0	0	0	0	0	0	0	587	297	1,178	1,178	1,178	1,178
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	0	0	0	0	0	0	0	587	297	1,178	1,178	1,178	1,178
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0

II. Recap of Payments & Distributions

A. Contractor Cashflows													
1. Payment to DRMS for Property Referred for Sale	0	0	(96)	(116)	(135)	(154)	(173)	(193)	(193)	(193)	(193)	(193)	(193)
2. Direct Cost (Advances) Repayments	0	(750)	(760)	(771)	179	(281)	383	958	482	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	(750)	(1,511)	(2,281)	(2,103)	(1,822)	(1,439)	(482)	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	0	0	0	0	0	0	0	0	147	74	294	294	294
5. Payment Deposit	(500)	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	0	0	0
7. Retention Fund - Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
8. Contractor Net Cashflow - This Month	(500)	(750)	(857)	(886)	44	127	209	765	436	(118)	102	102	102
9. Contractor Cumulative Net Cashflow	(500)	(1,250)	(2,107)	(2,993)	(2,949)	(2,823)	(2,614)	(1,849)	(1,413)	(1,531)	(1,429)	(1,328)	(1,226)
B. DRMS Cashflows													
1. Payment from Contractor for Property Referred for Sale	0	0	96	116	135	154	173	193	193	193	193	193	193
2. Gross Distribution Payments [80% of Net Proceeds]	0	0	0	0	0	0	0	587	297	1,178	1,178	1,178	1,178
3. Property Payments + Gross Distributions	0	0	96	116	135	154	173	193	779	490	1,371	1,371	1,371
4. Payment Deposit	500	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	500	0	96	116	135	154	173	193	779	490	1,371	1,371	1,371
8. DRMS Cumulative Cashflow	500	500	596	712	847	1,001	1,174	1,367	2,146	2,636	4,007	5,377	6,748

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term "Working Capital Advance" for both.

Table III-7(b)
CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	Year 2											
	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Acq. Value of Property Referred for Sale	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108
2. Acq. Value of Property Sold	211,693	211,693	211,693	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108	201,108
3. Acq. Value of Inventory	919,806	909,222	898,637	898,637	898,637	898,637	898,637	898,637	898,637	898,637	898,637	898,637
B. DRMS Baseline Proceeds (no sales delay, no phase-in)												
1. DRMS Baseline Gross Proceeds	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614	2,614
2. DRMS Baseline Expenses	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)	(1,307)
3. DRMS Baseline Net Proceeds	1,307	1,307	1,307	1,307	1,307	1,307	1,307	1,307	1,307	1,307	1,307	1,307
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	3,027	3,027	3,027	2,876	3,137	3,137	3,137	3,137	3,137	3,137	3,137	3,137
2. Total Purchaser Expenses	(1,101)	(1,101)	(1,101)	(1,046)	(1,046)	(1,046)	(1,046)	(1,046)	(1,046)	(1,046)	(1,046)	(1,046)
3. Purchaser Net Proceeds (Direct Cost Advance)	1,926	1,926	1,926	1,830	2,092	2,092	2,092	2,092	2,092	2,092	2,092	2,092
4. Purchaser Operating Cash Balance	1,101	1,101	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,590
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	1,926	1,926	1,981	1,830	2,092	2,092	2,092	2,092	2,092	2,092	2,092	1,547
D. Seller Indirect Costs *												
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	1,541	1,541	1,585	1,464	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,238
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,541	1,541	1,585	1,464	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,238
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payment to DRMS for Property Referred for Sale	(193)	(183)	(183)	(183)	(183)	(183)	(183)	(183)	(183)	(183)	(183)	(183)
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	385	385	396	366	418	418	418	418	418	418	418	309
5. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	0	0	0	0	0	0	(42)	(42)	(42)	(42)	(42)	(31)
7. Retention Fund - Balance	0	0	0	0	0	0	(42)	(84)	(125)	(167)	(209)	(240)
8. Contractor Net Cashflow - This Month	193	202	213	183	235	235	193	193	193	193	193	95
9. Contractor Cumulative Net Cashflow	(1,033)	(831)	(618)	(435)	(199)	36	230	423	616	810	1,003	1,099
B. DRMS Cashflows												
1. Payment from Contractor for Property Referred for Sale	193	183	183	183	183	183	183	183	183	183	183	183
2. Gross Distribution Payments [80% of Net Proceeds]	1,541	1,541	1,585	1,464	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,238
3. Property Payments + Gross Distributions	1,734	1,724	1,768	1,647	1,856	1,856	1,856	1,856	1,856	1,856	1,856	1,421
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	0	0	0	0	0	0	42	42	42	42	42	31
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	1,734	1,724	1,768	1,347	1,856	1,856	1,898	1,898	1,898	1,898	1,898	1,452
8. DRMS Cumulative Cashflow	8,481	10,205	11,974	13,621	15,477	17,333	19,231	21,129	23,027	24,925	26,823	28,275

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term "Working Capital Advance" for both.

Table III-7(b)

CV-2 Illustrative 7 Year Financial Model

All Figures (\$000s)	Year 3											
	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Acq. Value of Property Referred for Sale	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787
2. Acq. Value of Property Sold	201,108	201,108	201,108	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787	305,787
3. Acq. Value of Inventory	1,003,316	1,107,995	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673	1,212,673
B. DRMS Baseline Proceeds (no sales delay, no phase-in)												
1. DRMS Baseline Gross Proceeds	3,975	3,975	3,975	3,975	3,975	3,975	3,975	3,975	3,975	3,975	3,975	3,975
2. DRMS Baseline Expenses	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)	(1,988)
3. DRMS Baseline Net Proceeds	1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	3,137	3,137	3,137	4,770	4,770	4,770	5,168	5,168	5,168	5,168	5,168	5,168
2. Total Purchaser Expenses	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)	(1,590)
3. Purchaser Net Proceeds (Direct Cost Advance)	1,547	1,547	1,547	3,180	3,180	3,180	3,578	3,578	3,578	3,578	3,578	3,578
4. Purchaser Operating Cash Balance	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	1,547	1,547	1,547	3,180	3,180	3,180	3,578	3,578	3,578	3,578	3,578	3,578
D. Seller Indirect Costs *												
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	1,238	1,238	1,238	2,544	2,544	2,544	2,862	2,862	2,862	2,862	2,862	2,862
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,238	1,238	1,238	2,544	2,544	2,544	2,862	2,862	2,862	2,862	2,862	2,862
5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payment & Distributions												
A. Contractor Cashflows												
1. Payment to DRMS for Property Referred for Sale	(183)	(278)	(278)	(278)	(278)	(278)	(278)	(278)	(278)	(278)	(278)	(278)
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	309	309	309	636	636	636	716	716	716	716	716	716
5. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
6. Retention Fund (Payments) Credits	(31)	(31)	(31)	(64)	(64)	(40)	0	0	0	0	0	0
7. Retention Fund - Balance	(271)	(302)	(333)	(397)	(460)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
8. Contractor Net Cashflow - This Month	95	0	0	294	294	316	437	437	437	437	437	437
9. Contractor Cumulative Net Cashflow	1,194	1,195	1,195	1,489	1,783	2,101	2,538	2,976	3,413	3,850	4,287	4,725
B. DRMS Cashflows												
1. Payment from Contractor for Property Referred for Sale	183	278	278	278	278	278	278	278	278	278	278	278
2. Gross Distribution Payments [80% of Net Proceeds]	1,238	1,238	1,238	2,544	2,544	2,544	2,862	2,862	2,862	2,862	2,862	2,862
3. Property Payments + Gross Distributions	1,421	1,516	1,516	2,822	2,822	2,822	3,140	3,140	3,140	3,140	3,140	3,140
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	31	31	31	64	64	40	0	0	0	0	0	0
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	1,452	1,547	1,547	2,886	2,886	2,862	3,140	3,140	3,140	3,140	3,140	3,140
8. DRMS Cumulative Cashflow	29,727	31,274	32,821	35,707	38,593	41,465	44,596	47,736	50,876	54,017	57,157	60,298

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term "Working Capital Advance" for both.

Table III-7(b)
CV-2 Illustrative 7 Year Financial Model

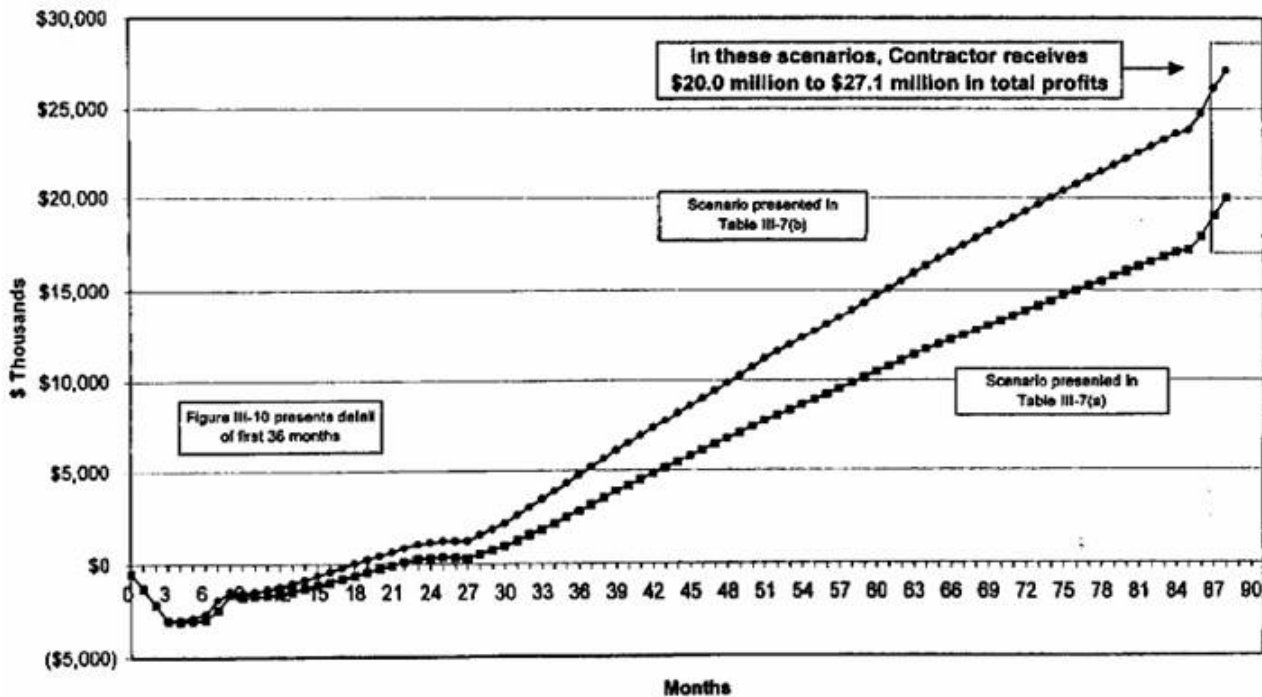
All Figures (\$000s)	Wind-Up				Total/ Balances	Annual Summary							Wind-Up	Totals
	Month 85	Month 86	Month 87	Month 88		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
I. Assumptions & Cash Flows														
A. Purchaser Inventory														
1. Acq. Value of Property Referred for Sale	0	0	0	0	21,238,052	2,222,777	2,413,301	3,669,446	3,485,974	3,311,675	3,146,092	2,988,787	0	21,238,052
2. Acq. Value of Property Sold	249,066	396,721	396,721	0	21,238,052	1,292,386	2,445,055	3,355,410	3,531,842	3,355,250	3,187,488	3,026,113	1,042,509	21,238,052
3. Acq. Value of Inventory	793,443	396,721	0	0	0	930,391	898,637	1,212,673	1,166,805	1,123,231	1,081,835	1,042,509	0	0
B. DRMS Baseline Proceeds (no sales delay, no phase-in)														
1. DRMS Baseline Gross Proceeds	0	0	0	0	280,223	33,024	31,373	47,703	45,318	43,052	40,899	38,854	0	280,223
2. DRMS Baseline Expenses	0	0	0	0	(140,111)	(16,512)	(15,686)	(23,851)	(22,659)	(21,526)	(20,450)	(19,427)	0	(140,111)
2. DRMS Baseline Net Proceeds	0	0	0	0	140,111	16,512	15,686	23,851	22,659	21,526	20,450	19,427	0	140,111
C. Purchaser Cashflows														
1. Purchaser Gross Proceeds	4,209	6,705	6,705	0	349,320	18,481	37,056	54,730	59,688	56,704	53,869	51,175	17,618	349,320
2. Total Purchaser Expenses	(1,295)	(2,063)	(2,063)	0	(117,209)	(11,858)	(12,714)	(19,081)	(18,366)	(17,447)	(16,575)	(15,746)	(5,421)	(117,209)
3. Purchaser Net Proceeds (Direct Cost Advance)	2,914	4,642	4,642	0	232,111	6,623	24,342	35,648	41,323	39,256	37,294	35,429	12,197	232,111
4. Purchaser Operating Cash Balance	2,063	2,063	0	0	0	1,101	1,590	1,590	1,511	1,295	1,363	1,295	0	0
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	2,146	4,642	6,705	0	232,111	5,522	23,852	35,648	41,402	39,472	37,225	35,497	13,492	232,111
D. Seller Indirect Costs *														
1. Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2. DRMS Gross Distribution	1,717	3,713	5,364	0	185,689	4,418	19,082	28,519	33,122	31,577	29,780	28,398	10,794	185,689
3. Seller Indirect Cost Advances repaid to Contractor	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. DRMS Distribution Payment [Net of Seller Indirect Costs]	1,717	3,713	5,364	0	185,689	4,418	19,082	28,519	33,122	31,577	29,780	28,398	10,794	185,689

5. Seller Indirect Cost Advance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Seller Indirect Cost Advance Balance [funded by Contractor]	0	0	0	0	0	0	0	0	0	0	0	0	0	0
II. Recap of Payments & Distributions														
A. Contractor Cashflows														
1. Payment to DRMS for Property Referred for Sale	(227)	0	0	0	(19,327)	(1,830)	(2,206)	(3,244)	(3,186)	(3,027)	(2,876)	(2,732)	(227)	(19,327)
2. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Seller Indirect Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Distributions = 20% of Net Proceeds	429	928	1,341	0	46,422	1,104	4,770	7,130	8,280	7,894	7,445	7,099	2,698	46,422
5. Payment Deposit	0	0	0	500	0	(500)	0	0	0	0	0	0	500	0
6. Retention Fund (Payments) Credits	0	0	0	500	0	0	(240)	(260)	0	0	0	0	500	0
7. Retention Fund - Balance	(500)	(500)	(500)	0	0	0	(240)	(500)	(500)	(500)	(500)	(500)	0	0
8. Contractor Net Cashflow	203	928	1,341	1,000	27,096	(1,226)	2,325	3,626	5,094	4,868	4,570	4,368	3,472	27,096
9. Contractor Cumulative Net Cashflow	23,826	24,755	26,096	27,096	27,096	(1,226)	1,099	4,725	9,819	14,687	19,256	23,624	27,096	27,096
B. DRMS Cashflows														
1. Payment from Contractor for Property Referred for Sale	227	0	0	0	19,327	1,830	2,206	3,244	3,186	3,027	2,876	2,732	227	19,327
2. Gross Distribution Payments [80% of Net Proceeds]	1,717	3,713	5,364	0	185,689	4,416	19,082	28,519	33,122	31,577	29,780	28,398	10,794	185,689
3. Property Payments + Gross Distributions	1,944	3,713	5,364	0	205,016	6,248	21,288	31,763	36,308	34,604	32,658	31,129	11,021	205,016
4. Payment Deposit	0	0	0	(500)	0	500	0	0	0	0	0	0	(500)	0
5. Retention Fund (Payments) Credits	0	0	0	(500)	0	240	260	0	0	0	0	0	(500)	0
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	1,944	3,713	5,364	(1,000)	205,016	6,748	21,528	32,023	36,308	34,604	32,658	31,129	10,021	205,016
8. DRMS Cumulative Cashflow	196,939	200,652	206,016	205,016	205,016	6,748	28,275	60,298	96,606	131,210	163,866	194,995	205,016	205,016

* This model distinguishes between advances from Contractor to Purchaser for Direct Costs and Seller Indirect Costs. The IFB text uses the collective term "Working Capital Advance" for both.

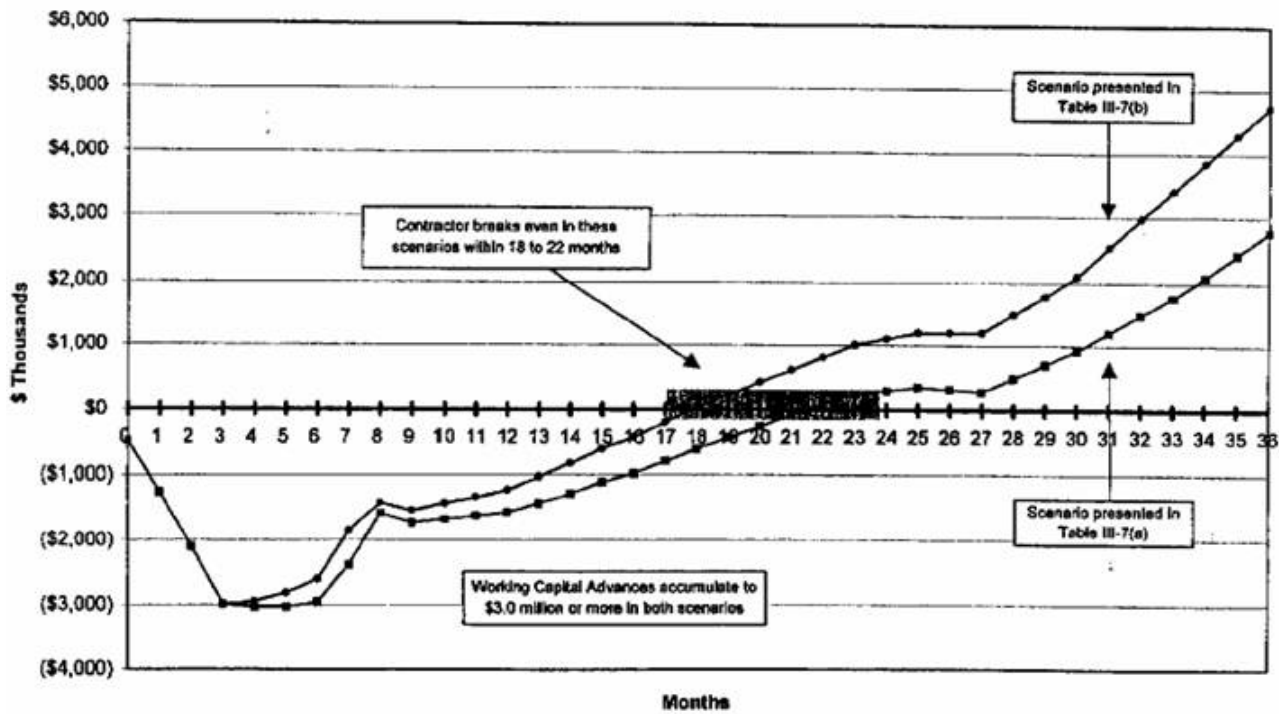
34.10

Figure III-9
Cumulative Profits to Contractor - Performance Period and Wind-Up
Varying Gross Proceeds Enhancement Factor, Property Disposition Path, and Total Property Flow



34.11

Figure III-10
Cumulative Net Cashflows to Contractor - Initial 36 Months
Varying Gross Proceeds Enhancement Factor, Property Disposition Path, and Total Property Flow



34.12

IV. ITEM DESCRIPTION

It has been determined that the property with the combinations of FSC and DEMIL Code presented in Table IV-1, after completion of the R/T/D process, is no longer needed by the Federal Government. Table IV-1 assigns these combinations of FSC and DEMIL Code into thirteen (13) Product Subpool Bid Categories. The thirteen categories were created by ranking these combinations by historic DRMS Gross ROR percentages and then grouping them into thirteen (13) Product Subpool categories for the purpose of this sale.

CONTACT: Tina Aldrich, (616) 961-7427
 Various Conditions
 DEMIL CODES A, B, Q as specified in Table IV-1(a)
 LOCATIONS: (See Loading Legend, Attachment IV.)

Based on historical data, and trends in the turn-in of surplus property by the generating activities, DRMS has estimated the following volumes of property available under this contract (estimates refer to Acquisition Value).

ESTIMATED TOTAL ACQUISITION VALUES (\$Billions)

Fiscal Year	CV-2	CV-1
2001 (partial)	1.000	0.600
2002	2.500	1.500
2003	2.400	1.400
2004	2.200	1.300
2005	2.000	1.200
2006	1.900	1.100
2007	1.800	1.000
2008 (partial)	1.000	0.600

* CV-1 Items will be referred for sale to the CV-2 Purchaser before September 2003 only in certain circumstances as set forth in the text.

These numbers reflect the Government's estimate of property that will be available under this contract and do not reflect guarantees, nor minimum or maximum values of property to be offered under this contract. See Product Pool and Property Flow, Part II, Section B.

The data presented in and accompanying this IFB present a sales history of the subject FSCs and DEMIL Codes and other related information. Bidders are advised that any sales history information is provided for informational purposes only. Prior year property generations and sales data are not predictors of future generations or sales. Potential bidders can review the overall DRMS inventory by accessing the DRMS web site at <http://www.drms.dla.mil>.

			Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
FSC No.	Commodity Code	FSC Description	DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
1005	W			C	D
1010	W			E	E
1015	W			E	E
1020	W			E	E
1025	W			E	E
1030	W			E	E
1035	W			E	E
1040	W			E	E
1045	W			E	E
1055	W			E	E
1070	W			E	E
1075	W			E	E
1080	W			B	E
1090	W			D	E
1095	W			B	E
1105	W	Textual labels applied by		E	E
1110	W	procurement authorities to these FSCs		E	E
1115	W	employ military ordinance		E	E
1120	W	terminology that would mislead		A	E
1125	W	prospective offerors if read		E	E
1127	W	literally. The items included in		E	E
1130	W	this sale from these FSCs are		E	E
1135	W	various types of equipment and		E	E
1140	W	materials that serve ordinary		E	E
1145	W	commercial or industrial		E	E
1190	W	purposes. There is no weaponry		E	E
1195	W	or ordinance included in this sale		E	E
1210	E	from these FSCs or from any		E	E
1220	E	other FSC.		E	E
1230	E			E	E
1240	E			E	E
1250	E			D	E
1260	E			E	E
1265	E			E	E
1270	E			E	E
1280	E			E	E
1285	E			E	E
1287	E			E	E
1290	E			E	E
1305	W			A	C

(1) "CV-2 Items" (CLIN 001) are to be referred for sale to the CV-2 Purchaser throughout the Performance Period at Delivery Points in CONUS, Alaska, Guam, Hawaii and Puerto Rico. "CV-1 Items" (CLIN 002) will be referred for sale to the CV-2 Purchaser in CONUS, if at all, only after the CV-1 Property Referral Date. The Bid Categories assigned in the "CV-1 Items" column apply without regard to the location or timing of the referral for sale to the CV-2 Purchaser. Thus, for example, DEMIL "A" Items in FSC No. 8130, "Reels and Spools," are always assigned to "CV-1 Bid Category A" whether referred at the beginning of the Performance Period in Guam as a CV-2 Item or later in CONUS as a CV-1 Item.

(2) Product Subpool Bid Categories are assigned based upon FSC and DEMIL Code. A "blank" means no Bid Category was assigned because the item was not included in the respective sale contract within CONUS (CV-1 or CV-2).

Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

			Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
FSC No.	Commodity Code	FSC Description	DEMIL "A"	DEMIL "A"	DEMIL "B or Q"

1310	W		E	E
1315	W		A	E
1320	W		C	E
1325	W		E	E
1330	W		E	E
1336	W		E	E
1337	W		E	E
1338	W		E	E
1340	W		A	E
1345	W		E	E
1350	W		E	E
1351	W		E	E
1355	W	Textual labels applied by	E	E
1356	W	procurement authorities to these	E	E
1360	W	FSCs employ military ordinance	A	E
1361	W	terminology that would mislead	E	E
1365	W	prospective offerors if read	E	E
1370	W	literally. The items included in	E	E
1375	W	this sale from these FSCs are	E	E
1376	W	various types of equipment and	E	E
1377	W	materials that serve ordinary	E	E
1380	(NONE)	commercial or industrial	E	E
1385	W	purposes. There is no weaponry	E	E
1386	W	or ordinance included in this sale	E	E
1390	W	from these FSCs or from any	E	E
1395	W	other FSC.	E	E
1398	W		A	E
1410	G		E	E
1420	G		E	E
1425	G		E	E
1427	G		E	E
1430	G		E	E
1440	G		E	E
1450	G		E	E
1510	A	AIRCRAFT, FIXED WING	E	E
1520	A	AIRCRAFT, ROTARY WING	E	C
1540	A	GLIDERS	A	E
1550	A	DRONES	E	E
1560	A	AIRFRAME STRUCTURAL COMPONENTS	E	D
1610	A	AIRCRAFT PROPELLERS	C	E
1615	A	HELICOPTER ROTOR BLADES, DRIVE MECHANISMS AND COMPONENTS	D	D
1620	A	AIRCRAFT LANDING GEAR COMPONENTS	D	E
1630	A	AIRCRAFT WHEEL AND BRAKE SYSTEMS	E	E
1650	A	AIRCRAFT HYDRAULIC, VACUUM AND DE-ICING SYSTEM COMPONENTS	D	E
1660	A	AIRCRAFT AIR CONDITION, HEATING AND PRESSURIZING EQUIPMENT	E	D
1670	T	PARACHUTES: AERIAL PICK UP, DELIVERY, RECOVERY SYSTEMS	D	E
1680	A	MISCELLANEOUS AIRCRAFT ACCESSORIES AND COMPONENTS	E	E
1710	G	AIRCRAFT ARRESTING, BARRIER AND BARRICADE EQUIPMENT	E	E
1720	G	AIRCRAFT LAUNCHING EQUIPMENT	D	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" (CONUS and Non-CONUS)	Bid Category(2) Assigned by DEMIL Code
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
1730	G	AIRCRAFT GROUND SERVICING EQUIPMENT		C	D
1740	G	AIRFIELD SPECIALIZED TRUCKS AND TRAILERS		A	C
1810	A	SPACE VEHICLES		E	E
1820	G	SPACE VEHICLE COMPONENTS		E	E
1830	G	SPACE VEHICLE REMOTE CONTROL SYSTEMS		E	E

1840	G	SPACE VEHICLE LAUNCHERS		E	E
1850	G	SPACE VEHICLE HANDLING AND SERVICING EQUIPMENT		E	E
1860	G	SPACE SURVIVAL EQUIPMENT		C	E
1905	D	COMBAT SHIPS AND LANDING VESSELS		A	C
1910	D	TRANSPORT VESSELS, PASSENGER AND TROOP		E	E
1915	D	CARGO AND TANKER VESSELS		E	E
1920	D	FISHING VESSELS		A	E
1925	D	SPECIAL SERVICE VESSELS		C	C
1930	D	BARGES AND LIGHTERS, CARGO	A		E
1935	D	BARGES AND LIGHTERS, SPECIAL PURPOSE	A		E
1940	U	SMALL CRAFT	A		D
1945	D	PONTOONS AND FLOATING DOCKS	C		E
1950	D	FLOATING DRYDOCKS	A		E
1955	D	[ILLEGIBLE]	E		E
1990	D	MISCELLANEOUS VESSELS		B	C
2010	D	SHIP AND BOAT PROPULSION COMPONENTS	A		E
2020	D	RIGGING AND RIGGING GEAR	C		E
2030	D	DECK MACHINERY	A		E
2040	D	MARINE HARDWARE AND HULL ITEMS	D		E
2050	D	BUOYS	A		E
2060	D	COMMERCIAL FISHING EQUIPMENT	E		E
2090	D	MISCELLANEOUS SHIP AND MARINE EQUIPMENT	C		E
2210	C	LOCOMOTIVES	B		E
2220	C	RAIL CARS	A		E
2230	C	RIGHT-OF-WAY CONSTRUCTION AND MAINTENANCE EQUIPMENT, RAILROAD	A		E
2240	C	LOCOMOTIVE AND RAIL CAR ACCESSORIES AND COMPONENTS	A		E
2250	C	TRACK MATERIALS, RAILROAD	B		E
2305	V	GROUND EFFECT VEHICLES		C	E
2310	V	PASSENGER MOTOR VEHICLES		A	C
2320	V	TRUCKS AND TRUCK TRACTORS, WHEELED		A	C
2330	V	TRAILERS		B	C
2340	V	MOTORCYCLES, MOTOR SCOOTERS AND BICYCLES		A	C
2350	V	COMBAT, ASSAULT AND TACTICAL VEHICLES, TRACKED		D	C
2410	C	TRACTORS, FULL TRACK, LOW SPEED	A		E
2420	C	TRACTORS, WHEELED	A		E
2430	C	TRACTORS, TRACK LAYING, HIGH SPEED	C		E
2510	V	VEHICULAR CAR, BODY AND FRAME STRUCTURAL COMPONENTS		B	D
2520	V	VEHICULAR POWER TRANSMISSION COMPONENTS		B	E
2530	V	VEHICULAR BRAKE, STEERING, AXLE, WHEEL AND TRACT COMPONENTS		C	C
2540	V	VEHICULAR FURNITURE AND ACCESSORIES		C	E
2541	(NONE)	WEAPONS SYSTEMS SPECIFIC VEHICULAR ACCESSORIES		C	E
2590	V	MISCELLANEOUS VEHICULAR COMPONENTS		C	E
2610	V	TIRES AND TUBES, PNEUMATIC, EXCEPT AIRCRAFT		A	E
2620	V	TIRES AND TUBES, PNEUMATIC, AIRCRAFT		C	C

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
2630	V	TIRES, SOLID AND CUSHION		A	E
2640	V	TIRE REBUILDING AND TIRE AND TUBE REPAIR		C	E
2805	V	GASOLINE RECIPROCATING ENGINES, EXCEPT AIRCRAFT AND COMPONENTS		B	D
2810	A	GASOLINE RECIPROCATING ENGINES, AIRCRAFT AND COMPONENTS		B	D

2815	V	DIESEL ENGINES AND COMPONENTS	B	C
2820	D	STEAM ENGINES, RECIPROCATING AND COMPONENTS	D	E
2825	D	STEAM TURBINES AND COMPONENTS	E	E
2830	D	WATER TURBINES AND WATER WHEELS AND COMPONENTS	C	E
2835	A	GAS TURBINES AND JET ENGINES, EXCEPT AIRCRAFT AND COMPONENTS	C	D
2840	A	GAS TURBINES AND JET ENGINES, AIRCRAFT AND COMPONENTS	E	D
2845	A	ROCKET ENGINES AND COMPONENTS	E	E
2850	V	GASOLINE ROTARY ENGINES AND COMPONENTS	A	E
2895	V	MISCELLANEOUS ENGINES AND COMPONENTS	D	E
2910	V	ENGINE FUEL SYSTEM COMPONENTS, NONAIRCRAFT	C	D
2915	A	ENGINE FUEL SYSTEM COMPONENTS, AIRCRAFT	E	E
2920	V	ENGINE ELECTRICAL SYSTEM COMPONENTS, NONAIRCRAFT	C	C
2925	A	ENGINE ELECTRICAL SYSTEM COMPONENTS, AIRCRAFT	E	C
2930	V	ENGINE COOLING SYSTEM COMPONENTS, NONAIRCRAFT	C	E
2935	A	ENGINE COOLING SYSTEM COMPONENTS, AIRCRAFT	A	D
2940	V	ENGINE AIR AND OIL FILTERS, STRAINERS AND CLEANERS, NONAIRCRAFT	C	E
2945	A	ENGINE AIR AND OIL FILTERS, STRAINERS AND CLEANERS, AIRCRAFT	B	C
2950	A	TURBOSUPERCHARGERS	B	E
2990	V	MISCELLANEOUS ENGINE ACCESSORIES, NONAIRCRAFT	D	D
2995	A	MISCELLANEOUS ENGINE ACCESSORIES, AIRCRAFT	E	D
3010	I	TORQUE CONVERTERS AND SPEED CHANGERS	D	E
3020	I	GEARS, PULLEYS, SPROCKETS AND TRANSMISSION CHAIN	D	C
3030	I	BELTING, DRIVE BELTS, FAN BELTS AND ACCESSORIES	D	E
3040	I	MISCELLANEOUS POWER TRANSMISSION EQUIPMENT	D	C
3110	B	BEARINGS, ANTIFRICTION, UNMOUNTED	B	C
3120	B	BEARINGS, PLAIN, UNMOUNTED	D	C
3130	B	BEARINGS, MOUNTED	C	C
3210	I	SAWMILL AND PLANING MILL MACHINERY	A	E
3220	I	WOODWORKING MACHINES	A	E
3230	I	TOOLS AND ATTACHMENTS FOR WOODWORKING MACHINERY	A	C
3405	I	SAWS AND FILING MACHINES	A	E
3408	I	MACHINE CENTERS AND WAY-TYPE MACHINES	D	E
3410	I	ELECTRICAL AND ULTRASONIC EROSION MACHINES	A	E
3411	I	BORING MACHINES	A	E
3412	I	BROACHING MACHINES	A	E
3413	I	DRILLING AND TAPPING MACHINES	A	C
3414	I	GEAR CUTTING AND FINISHING MACHINES	A	E
3415	I	GRINDING MACHINES	A	C
3416	I	LATHES	A	C
3417	I	MILLING MACHINES	A	D
3418	I	PLANERS AND SHAPERS	A	C
3419	I	MISCELLANEOUS MACHINE TOOLS	A	C
3422	I	ROLLING MILLS AND DRAWING MACHINES	A	E
3424	I	METAL HEAT TREATING AND NON-THERMAL TREATING EQUIPMENT	A	C
3426	I	METAL FINISHING EQUIPMENT	A	E

Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

Product Subpools	
CV-2 Items (CLIN 001:	
CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)

FSC No.	Commodity Code	FSC Description	DEMIL “A”	DEMIL “A”	DEMIL “B or Q”
3431	I	ELECTRIC ARC WELDING EQUIPMENT	B		C
3432	I	ELECTRIC RESISTANCE WELDING EQUIPMENT	A		E
3433	I	GAS WELDING, HEAT CUTTING AND METALLIZING EQUIPMENT	C		E
3436	I	WELDING POSITIONERS AND MANIPULATORS	A		E
3438	I	MISCELLANEOUS WELDING EQUIPMENT	D		E
3439	I	MISCELLANEOUS WELDING, SOLDERING BRAZING SUPPLIESACCESSORIES	B		C
3441	I	BENDING AND FORMING MACHINES	A		E
3442	I	HYDRAULIC AND PNEUMATIC PRESSES, POWER DRIVEN	A		E
3443	I	MECHANICAL PRESSES, POWER DRIVEN	A		C
3444	I	MANUAL PRESSES	A		C
3445	I	PUNCHING AND SHEARING MACHINES	A		E
3446	I	FORGING MACHINERY AND HAMMERS	B		E
3447	I	WIRE AND METAL RIBBON FORMING MACHINES	A		E
3448	I	RIVETING MACHINES	A		E
3449	I	MISCELLANEOUS SECONDARY METAL FORMING AND CUTTING MACHINES	A		E
3450	I	MACHINE TOOLS, PORTABLE	A		C
3455	I	CUTTING TOOLS FOR MACHINE TOOLS	B		C
3456	I	CUTTING AND FORMING TOOLS FOR SECONDARY METALWORKING MACHINERY	C		C
3460	I	MACHINE TOOL ACCESSORIES	A		E
3461	I	ACCESSORIES FOR SECONDARY METALWORKING MACHINERY	A		C
3465	I	PRODUCTION JIGS, FIXTURES AND TEMPLATES	A		C
3470	I	MACHINE SHOP SETS, KITS AND OUTFITS	A		C
3510	J	LAUNDRY AND DRY CLEANING EQUIPMENT	C		E
3520	J	SHOE REPAIRING EQUIPMENT	A		E
3530	J	INDUSTRIAL SEWING MACHINES AND MOBILE TEXTILE REPAIR SHOPS	A		E
3540	J	WRAPPING AND PACKAGING MACHINERY	A		E
3550	J	VENDING AND COIN OPERATED MACHINES	C		E
3590	J	MISCELLANEOUS SERVICE AND TRADE EQUIPMENT	A		E
3605	J	FOOD PRODUCTS MACHINERY AND EQUIPMENT	B		E
3610	J	PRINTING, DUPLICATING AND BOOKBINDING EQUIPMENT	C		C
3611	J	INDUSTRIAL MARKING MACHINES	A		E
3615	J	PULP AND PAPER INDUSTRIES MACHINERY	B		E
3620	J	RUBBER AND PLASTICS WORKING MACHINERY	E		E
3625	J	TEXTILE INDUSTRIES MACHINERY	A		E
3630	J	CLAY AND CONCRETE PRODUCTS INDUSTRIES MACHINERY	A		E
3635	J	CRYSTAL AND GLASS INDUSTRIES MACHINERY	C		E
3640	J	TOBACCO MANUFACTURING MACHINERY	B		E
3645	J	LEATHER TANNING AND LEATHER WORKING INDUSTRIES MACHINERY	A		E
3650	J	CHEMICAL AND PHARMACEUTICAL PRODUCTS MANUFACTURING MACHINERY	C		E
3655	J	GAS GENERATING AND DISPENSING SYSTEMS, FIXED OR MOBILE	D		C
3660	J	INDUSTRIAL SIZE REDUCTION MACHINERY	B		E
3670	J	SPEC. SEMICONDUCTOR, MICROCIRCUIT, PRINTED CIRCUIT BOARD MFG EQUIP	D		E
3680	I	FOUNDRY MACHINERY, RELATED EQUIPMENT AND SUPPLIES	A		E
3685	J	SPECIALIZED METAL CONTAINER MFG MACHINERY AND RELATED EQUIPMENT	A		E
3690	J	SPECIALIZED AMMO AND ORDINANCE MACHINERY AND RELATED EQUIPMENT	A		D
3693	J	INDUSTRIAL ASSEMBLY MACHINES	C		E
3694	J	CLEAN WORK STATIONS, CONTROLLED ENVIRONMENT AND RELATED EQUIP	C		C
3695	J	MISC SPECIAL INDUSTRY MACHINERY	C		D
3710	H	SOIL PREPARATION EQUIPMENT	A		E

Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
3720	H	HARVESTING EQUIPMENT	A		E
3730	H	DAIRY, POULTRY AND LIVESTOCK EQUIPMENT	A		E
3740	J	PEST, DISEASE AND FROST CONTROL EQUIPMENT	B		E
3750	X	GARDENING IMPLEMENTS AND TOOLS		B	E
3760	H	ANIMAL DRAWN VEHICLES AND FARM TRAILERS	C		E
3770	H	SADDLERY, HARNESS, WHIPS AND RELATED ANIMAL FURNISHINGS	C		E
3805	C	EARTH MOVING AND EXCAVATING EQUIPMENT	B		E
3810	C	CRANES AND CRANE-SHOVELS	A		E
3815	C	CRANE AND CRANE-SHOVEL ATTACHMENTS	B		E
3820	C	MINING, ROCK DRILLING, EARTH BORING AND RELATED EQUIPMENT	B		E
3825	C	ROAD CLEARING AND CLEANING EQUIPMENT	C		E
3830	C	TRUCK AND TRACTOR ATTACHMENTS	B		E
3835	C	PETROLEUM PRODUCTION AND DISTRIBUTION EQUIPMENT	E		E
3895	C	MISC CONSTRUCTION EQUIPMENT	C		E
3910	H	CONVEYORS	D		E
3915	H	MATERIALS FEEDERS	D		E
3920	H	MATERIALS HANDLING EQUIPMENT, NONSELF-PROPELLED	A		E
3930	V	WAREHOUSE TRUCKS AND TRACTORS, SELF-PROPELLED	B		C
3940	H	BLOCKS, TACKLE, RIGGING AND SLINGS	B		E
3950	H	WINCHES, HOISTS, CRANES AND DERRICKS	B		E
3960	H	ELEVATORS AND ESCALATORS	C		C
3990	H	MISC MATERIALS HANDLING EQUIPMENT	A		D
4010	D	CHAIN AND WIRE ROPE	B		E
4020	D	FIBER ROPE, CORDAGE AND TWINE	B		C
4030	D	FITTINGS FOR ROPE, CABLE AND CHAIN	B		C
4110	P	REFRIGERATION EQUIPMENT	B		C
4120	P	AIR CONDITIONING EQUIPMENT	D		D
4130	P	REFRIGERATION AND AIR CONDITIONING COMPONENTS	C		E
4140	P	FANS, AIR CIRCULATORS AND BLOWER EQUIPMENT	D		E
4150	P	VORTEX TUBES AND OTHER RELATED COOLING TUBES	B		E
4210	J	FIRE FIGHTING EQUIPMENT	C		D
4220	D	MARINE LIFESAVING AND DIVING EQUIPMENT	D		E
4230	J	DECONTAMINATING AND IMPREGNATING EQUIPMENT	D		E
4235	J	HAZARDOUS MATERIAL SPILL CONTAINMENT AND CLEAN-UP EQUIPMENT MATERIAL	B		E
4240	J	SAFETY AND RESCUE EQUIPMENT	E		E
4250	J	RECYCLING AND RECLAMATION EQUIPMENT	A		E
4310	P	COMPRESSORS AND VACUUM PUMPS	C		E
4320	P	POWER AND HAND PUMPS	D		E
4330	P	CENTRIFUGALS, SEPARATORS AND PRESSURE AND VACUUM FILTERS	D		E
4410	P	INDUSTRIAL BOILERS	D		E
4420	P	HEAT EXCHANGERS AND STEAM CONDENSERS	D		E
4430	I	INDUSTRIAL FURNACES, KILNS, LEHRS AND OVENS	C		E
4440	P	DRIERS, DEHYDRATORS AND ANHYDRATORS	D		E
4460	P	AIR PURIFICATION EQUIPMENT	D		C
4470	W	NUCLEAR REACTORS		B	E
4510	P	PLUMBING FIXTURES AND ACCESSORIES	B		E
4520	P	SPACE HEATING EQUIPMENT AND DOMESTIC WATER HEATERS	C		C
4530	P	FUEL BURNING EQUIPMENT UNITS	D		E
4540	P	MISC PLUMING, HEATING AND SANITATION EQUIPMENT	D		E

Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" (CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
4610	P	WATER PURIFICATION EQUIPMENT	C		C
4620	P	WATER DISTILLATION EQUIPMENT, MARINE AND INDUSTRIAL	D		E
4630	P	SEWAGE TREATMENT EQUIPMENT	A		E
4710	P	PIPE AND TUBE	C		D
4720	P	HOSE AND TUBING, FLEXIBLE	D		E
4730	P	FITTINGS AND SPECIALITIES; HOSE, PIPE AND TUBE	D		E
4810	P	VALVES, POWERED	E		E
4820	P	VALVES, NONPOWERED	D		E
4910	H	MOTOR VEHICLE MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT	C		E
4920	G	AIRCRAFT MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT		E	E
4921	W	TORPEDO MAINTENANCE, REPAIR AND CHECKOUT SPECIALIZED EQUIPMENT		E	E
4923	W	DEPTH CHARGES/UNDERWATER MINES MAINT/REPAIR/CHECKOUT SPEC. EQUIP		A	E
4925	G	AMMO MAINTENANCE, REPAIR AND CHECKOUT SPECIALIZED EQUIPMENT		B	E
4927	W	ROCKET MAINTENANCE, REPAIR AND CHECKOUT SPECIALIZED EQUIPMENT		E	E
4930	H	LUBRICATION AND FUEL DISPENSING EQUIPMENT	C		E
4931	G	FIRE CONTROL MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT		E	E
4933	G	WEAPONS MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT		E	E
4935	G	GUIDED MISSILE MAINTENANCE, REPAIR CHECKOUT SPECIALIZED EQUIP		E	E
4940	H	MISC MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT	C		E
4960	G	SPACE VEHICLE MAINTENANCE, REPAIR CHECKOUT SPECIALIZED EQUIP		E	E
4970	(NONE)	MULTI GUARDED WEAPONS, SPECIALIZED MAINTENANCE & REPAIR SHOP EQUIPMENT		A	E
5110	X	HAND TOOLS, EDGED, NONPOWERED		A	E
5120	X	HAND TOOLS, NONEDGED, NONPOWERED		C	E
5130	X	HAND TOOLS, POWER DRIVEN		C	E
5133	X	DRILL BITS, COUNTERBORES AND COUNTERSINKS		A	E
5136	X	TAPS, DIES AND COLLETS; HAND AND MACHINE		B	D
5140	X	TOOL AND HARDWARE BOXES		A	E
5180	X	SETS, KITS AND OUTFITS OF HAND TOOLS		E	E
5210	X	MEASURING TOOLS, CRAFTSMENS		C	E
5220	X	INSPECTION GAGES AND PRECISION LAYOUT TOOLS		D	C
5280	X	SETS, KITS AND OUTFITS OF MEASURING TOOLS		D	E
5305	K	SCREWS	E		E
5306	K	BOLTS	E		E
5307	K	STUDS	D		E
5310	K	NUTS AND WASHERS	D		D
5315	K	NAILS, KEYS AND PINS	D		D
5320	K	RIVETS	E		E
5325	K	FASTENING DEVICES	D		E
5330	K	PACKING AND GASKET MATERIALS	E		E
5331	(NONE)	O-RING		D	E
5335	K	METAL SCREENING	D		E
5340	K	MISCELLANEOUS HARDWARE	D		E
5341	K	BRACKETS	D		C

5342	(NONE)	HARDWARE, WEAPON SYSTEM		D	C
5345	K	DISKS AND STONES, ABRASIVE	C		E
5350	K	ABRASIVE MATERIALS	A		E
5355	E	KNOBS AND POINTERS	E		D
5360	K	COIL, FLAT AND WIRE SPRINGS	D		E
5365	K	RINGS, SHIMS AND SPACERS	D		E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001:		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
Bid Category(2) Assigned by DEMIL Code			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
5410	K	PREFABRICATED AND PORTABLE BUILDINGS	B		E
5411	K	RIGID WALL SHELTERS	C		C
5419	K	COLLECTIVE MODULAR SUPPORT SYSTEM	A		E
5420	K	BRIDGES, FIXED AND FLOATING	A		C
5430	K	STORAGE TANKS	C		E
5440	K	SCAFFOLDING EQUIPMENT AND CONCRETE FORMS	A		E
5445	K	PREFABRICATED TOWER STRUCTURES	C		E
5450	K	MISC PREFABRICATED STRUCTURES	A		E
5510	K	LUMBER AND RELATED BASIC WOOD MATERIALS	B		E
5520	K	MILLWORK - INCLUDES DOORS WINDOWS FRAMES	B		E
5530	K	PLYWOOD AND VENEER	A		E
5610	K	MINERAL CONSTRUCTION MATERIALS, BULK	C		E
5620	K	BUILDING GLASS TILE, BRICK AND BLOCK	D		E
5630	K	PIPE AND CONDUIT, NONMETALLIC	A		E
5640	K	WALLBOARD, BUILDING PAPER, AND THERMAL INSULATION MATERIALS	C		E
5650	K	ROOFING AND SIDING MATERIALS	A		E
5660	K	FENCING, FENCES AND GATES	C		E
5670	K	ARCHITECTURAL AND RELATED METAL PRODUCTS	A		D
5675	K	NONWOOD CONSTRUCTION LUMBER AND RELATED MATERIALS	A		E
5680	K	MISCELLANEOUS CONSTRUCTION MATERIALS	D		E
5805	E	TELEPHONE AND TELEGRAPH EQUIPMENT	E		E
5810	E	COMMUNICATIONS SECURITY EQUIPMENT AND COMPONENTS	E		E
5811	E	OTHER CRYPTOLOGIC EQUIPMENT AND COMPONENTS	E		E
5815	E	TELETYPE AND FACSIMILE EQUIPMENT	E		E
5820	E	RADIO AND TELEVISION COMMUNICATION EQUIPMENT, EXCEPT AIRBORNE	D		E
5821	A	RADIO AND TELEVISION COMMUNICATION EQUIPMENT, AIRBORNE		E	E
5825	E	RADIO NAVIGATION EQUIPMENT, EXCEPT AIRBORNE	E		E
5826	A	RADIO NAVIGATION EQUIPMENT, AIRBORNE		E	E
5830	E	INTERCOMMUNICATION AND PUBLIC ADDRESS SYSTEMS, EXCEPT AIRBORNE	D		E
5831	A	INTERCOMMUNICATION AND PUBLIC ADDRESS SYSTEMS, AIRBORNE		E	E
5835	E	SOUND RECORDING AND REPRODUCING EQUIPMENT	E		E
5836	E	VIDEO RECORDING AND REPRODUCING EQUIPMENT	D		E
5840	E	RADAR EQUIPMENT, EXCEPT AIRBORNE	E		E
5841	A	RADAR EQUIPMENT, AIRBORNE		E	E
5845	E	UNDERWATER SOUND EQUIPMENT	E		E
5850	E	VISIBLE AND INVISIBLE LIGHT COMMUNICATION EQUIPMENT	E		D
5855	E	NIGHT VISION EQUIPMENT, EMITTED AND	D		E

5860	E	REFLECTED RADIATION STIMULATED COHERENT RADIATION DEVICES, COMPONENTS/ACCESSORIES	E	E
5865	E	ELECTRONIC COUNTERMEASURES, COUNTER- COUNTER MEASURES	E	E
5895	E	MISCELLANEOUS COMMUNICATION EQUIPMENT	E	E
5905	E	RESISTORS	E	E
5910	E	CAPACITORS	D	E
5915	E	FILTERS AND NETWORKS	E	E
5920	E	FUSES AND LIGHTNING ARRESTERS	D	E
5925	E	CIRCUIT BREAKERS	C	E
5930	E	SWITCHES	E	E
5935	E	CONNECTORS, ELECTRICAL	C	E
5940	E	LUGS, TERMINALS AND TERMINAL STRIPS	E	E
5945	E	RELAYS AND SOLENOIDS	D	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
5950	E	COILS AND TRANSFORMERS	E		E
5955	E	PIEZOELECTRIC CRYSTALS	E		E
5960	E	ELECTRON TUBES AND ASSOCIATED HARDWARE	C		E
5961	E	SEMICONDUCTOR DEVICES AND ASSOCIATED HARDWARE	E		E
5962	E	MICROCIRCUITS, ELECTRONIC	E		E
5963	E	ELECTRONIC MODULES	E		E
5965	E	HEADSETS, HANDSETS, MICROPHONES AND SPEAKERS	C		D
5970	E	ELECTRICAL INSULATORS AND INSULATING MATERIALS	D		E
5975	E	ELECTRICAL HARDWARE AND SUPPLIES	D		E
5977	E	ELECTRICAL CONTACT BRUSHES AND ELECTRODES	E		E
5980	E	OPTOELECTRIC DEVICES AND ASSOCIATED HARDWARE	E		E
5985	E	ANTENNAS, WAVEGUIDE AND RELATED EQUIPMENT	E		E
5990	E	SYNCHROS AND RESOLVERS	E		E
5995	E	CABLE, CORD AND WIRE ASSEMBLIES; COMMUNICATION EQUIPMENT	E		E
5996	E	AMPLIFIERS	E		E
5998	E	ELECTRICAL AND ELECTRONIC ASSEMBLIES; BOARDS, CARDS AND ASSOC HARDWARE	E		E
5999	E	MISCELLANEOUS ELECTRICAL AND ELECTRONIC COMPONENTS	E		E
6004	E	ROTARY JOINTS - FIBER OPTICS	E		E
6005	E	COUPLERS, SPLITTERS, AND MIXERS	E		E
6006	E	ATTENUATORS - FIBER OPTICS	E		E
6007	E	FILTERS - FIBER OPTICS	D		E
6008	E	OPTICAL MULTIPLEXERS/DEMULTIPLEXERS	E		E
6010	E	FIBER OPTIC CONDUCTORS	C		E
6015	E	FIBER OPTIC CABLES	C		E
6020	E	FIBER OPTIC CABLE ASSEMBLIES AND HARNESSES	E		E
6021	E	FIBER OPTIC SWITCHES	E		E
6025	E	FIBER OPTIC TRANSMITTERS	E		E
6026	E	FIBER OPTIC RECEIVERS	E		E
6029	E	OPTICAL REPEATERS	E		E
6030	E	FIBER OPTIC DEVICES	E		E
6031	E	INTEGRATED OPTICAL CIRCUITS	E		E
6032	E	FIBER OPTIC LIGHT SOURCES	D		E
6033	E	FIBER OPTIC PHOTO DETECTORS	E		E
6034	E	FIBER OPTIC MODULATORS/DEMODULATORS	E		E

6035	E	FIBER OPTIC LIGHT TRANSFER AND IMAGE TRANSFER DEVICES	E	E
6040	E	FIBER OPTIC SENSORS	E	E
6050	E	FIBER OPTIC PASSIVE DEVICES	B	C
6060	E	FIBER OPTIC INTERCONNECTORS	E	E
6070	E	FIBER OPTIC ACCESSORIES AND SUPPLIES	E	C
6080	E	FIBER OPTIC KITS AND SETS	D	E
6099	E	MISCELLANEOUS FIBER OPTIC COMPONENTS	D	E
6105	E	MOTORS, ELECTRICAL	D	C
6110	E	ELECTRICAL CONTROL EQUIPMENT	E	E
6115	E	GENERATORS AND GENERATOR SETS, ELECTRICAL	C	E
6116	E	FUEL, CELL POWER UNITS, COMPONENTS AND ACCESSORIES	D	C
6117	E	SOLAR ELECTRIC POWER SYSTEM	B	C
6120	E	TRANSFORMERS, DISTRIBUTION AND POWER STATION		E E
6125	E	CONVERTERS, ELECTRICAL, ROTATING	E	E
6130	E	CONVERTERS, ELECTRICAL, NONROTATING	E	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" (CONUS and Non-CONUS)
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	DEMIL "A"	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
6135	E	BATTERIES, PRIMARY		E	E
6140	E	BATTERIES, SECONDARY		E	E
6145	E	WIRE AND CABLE, ELECTRICAL	B		D
6150	E	MISCELLANEOUS ELECTRIC POWER AND DISTRIBUTION EQUIPMENT	E		E
6160	E	MISCELLANEOUS BATTERY RETAINING FIXTURES AND LINERS	D		E
6210	E	INDOOR AND OUTDOOR ELECTRIC LIGHTING FIXTURES	D		E
6220	E	ELECTRIC VEHICULAR LIGHTS AND FIXTURES	D		D
6230	E	ELECTRIC PORTABLE AND HAND LIGHTING EQUIPMENT	D		E
6240	E	ELECTRIC LAMPS	C		E
6250	E	BALLASTS, LAMPHOLDERS AND STARTERS	D		E
6260	E	NONELECTRICAL LIGHTING FIXTURES	B		E
6310	E	TRAFFIC AND TRANSIT SIGNAL SYSTEMS	E		E
6320	D	SHIPBOARD ALARM AND SIGNAL SYSTEMS	E		E
6330	E	RAILROAD SIGNAL AND WIRING DEVICES	E		E
6340	A	AIRCRAFT ALARM AND SIGNAL SYSTEMS		E	E
6350	E	MISCELLANEOUS ALARM, SIGNAL AND SECURITY DETECTION SYSTEMS	E		E
6505	M	MISC. MEDICAL		E	E
6508	M	MEDICATED COSMETICS AND TOILETRIES		A	E
6510	M	SURGICAL DRESSING MATERIALS		D	D
6515	M	MEDICAL AND SURGICAL INSTRUMENTS, EQUIPMENT AND SUPPLIES		C	C
6520	M	DENTAL INSTRUMENTS, EQUIPMENT AND SUPPLIES		A	E
6525	M	X-RAY EQUIPMENT AND SUPPLIES: MEDICAL, DENTAL, VETERINARY		D	E
6530	M	HOSPITAL FURNITURE, EQUIPMENT, UTENSILS, AND SUPPLIES		B	E
6532	M	HOSPITAL AND SURGICAL CLOTHING AND RELATED SPECIAL PURPOSE ITEMS		C	E
6540	M	OPTICIANS INSTRUMENTS, EQUIPMENT AND SUPPLIES		A	E
6545	M	MEDICAL SETS, KITS AND OUTFITS		C	E
6550	M	IN-VITRO DIAGNOSTIC SUBSTANCES, REAGENTS, TEST KITS AND SETS		C	E
6605	D	NAVIGATIONAL INSTRUMENTS	E		E
6610	A	FLIGHT INSTRUMENTS		D	E

6615	D	AUTOMATIC PLOT MECHANISMS AND AIRBORNE GYRO COMPONENTS	D	D
6620	D	ENGINE INSTRUMENTS	E	D
6625	E	ELECTRICAL/ELECTRONIC PROPERTIES MEASURING/TESTING INSTRUMENTS	D	E
6630	M	CHEMICAL ANALYSIS INSTRUMENTS	D	E
6635	M	PHYSICAL PROPERTIES TESTING EQUIPMENT	C	D
6636	M	ENVIRONMENTAL CHAMBERS AND RELATED EQUIPMENT	D	E
6640	M	LABORATORY EQUIPMENT AND SUPPLIES	D	E
6645	M	TIME MEASURING INSTRUMENTS	E	E
6650	M	OPTICAL INSTRUMENTS	D	D
6655	M	GEOPHYSICAL AND ASTRONOMICAL INSTRUMENTS	E	E
6660	M	METEOROLOGICAL INSTRUMENTS AND APPARATUS	E	E
6665	M	HAZARD-DETECTING INSTRUMENTS AND APPARATUS	E	E
6670	M	SCALES AND BALANCES	C	E
6675	M	DRAFTING, SURVEYING AND MAPPING INSTRUMENTS	D	D
6680	M	LIQUID/GAS FLOW, LIQUID LEVEL/MECHANICAL MOTION MEASURING INSTRUMENTS	D	E
6685	M	PRESSURE, TEMPERATURE/HUMIDITY MEASURING/CONTROLLING INSTRUMENT	D	E
6695	M	COMBINATION AND MISCELLANEOUS INSTRUMENTS	D	D

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
Bid Category(2) Assigned by DEMIL Code			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
6710	X	CAMERAS, MOTION PICTURE		C	E
6720	X	CAMERAS, STILL PICTURE		E	E
6730	X	PHOTOGRAPHIC PROJECTION EQUIPMENT		C	E
6740	X	PHOTOGRAPHIC DEVELOPING AND FINISHING EQUIPMENT		D	E
6750	X	PHOTOGRAPHIC SUPPLIES		E	E
6760	X	PHOTOGRAPHIC EQUIPMENT AND ACCESSORIES		E	E
6770	X	FILM, PROCESSED		D	E
6780	X	PHOTOGRAPHIC SETS, KITS AND OUTFITS		D	E
6810	L	CHEMICALS		E	E
6820	L	DYES		E	E
6830	L	GASES: COMPRESSED AND LIQUEFIED		E	E
6840	L	PEST CONTROL AGENTS AND DISINFECTANTS		E	E
6850	L	MISCELLANEOUS CHEMICAL SPECIALITIES		C	E
6910	O	TRAINING AIDS		E	E
6920	O	ARMAMENT TRAINING DEVICES		E	E
6930	O	OPERATION TRAINING DEVICES		E	E
6940	O	COMMUNICATION TRAINING DEVICES		E	E
7010	E	ADPE SYSTEM CONFIGURATION		E	E
7020	E	ADP CENTRAL PROCESSING UNIT, ANALOG		E	E
7021	E	ADP CENTRAL PROCESSING UNIT, DIGITAL		E	E
7022	E	ADP CENTRAL PROCESSING UNIT, HYBRID		E	E
7025	E	ADP INPUT/OUTPUT AND STORAGE DEVICES		E	E
7030	E	ADP SOFTWARE		D	E
7035	E	ADP SUPPORT EQUIPMENT		E	E
7040	E	PUNCHED CARD EQUIPMENT		E	E
7042	E	MINI AND MICRO COMPUTER CONTROL DEVICES		E	E
7045	E	ADP SUPPLIES AND SUPPORT EQUIPMENT		E	E
7050	E	ADP COMPONENTS		E	E
7105	F	HOUSEHOLD FURNITURE		B	E
7110	F	OFFICE FURNITURE		B	E
7125	F	CABINETS, LOCKERS AND BINS AND SHELVING		B	C
7195	F	MISCELLANEOUS FURNITURE AND FIXTURES		B	E

7210	F	HOUSEHOLD FURNISHINGS	C	E
7220	F	FLOOR COVERINGS	C	E
7230	F	DRAPERES, AWNINGS AND SHADES	D	E
7240	F	HOUSEHOLD AND COMMERCIAL UTILITY CONTAINERS	C	E
7290	F	MISCELLANEOUS HOUSEHOLD AND COMMERCIAL FURNISHINGS/APPLIANCES	B	E
7310	F	FOOD COOKING, BAKING AND SERVING EQUIPMENT	B	E
7320	F	KITCHEN EQUIPMENT AND APPLIANCES	B	E
7330	F	KITCHEN HAND TOOLS AND UTENSILS	C	E
7340	F	CUTLERY AND FLATWARE	A	E
7350	F	TABLEWARE	C	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	Bid Category(2) Assigned by DEMIL Code
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
7360	F	SETS, KITS AND OUTFITS: FOOD PREPARATION AND SERVING		C	E
7420	O	ACCOUNTING AND CALCULATING MACHINES		D	E
7430	O	TYPEWRITERS AND OFFICE TYPE COMPOSING MACHINES		C	E
7435	O	OFFICE INFORMATION SYSTEM EQUIPMENT		E	E
7450	O	OFFICE TYPE SOUND RECORDING AND REPRODUCING MACHINES		D	E
7460	O	VISIBLE RECORD EQUIPMENT		D	E
7490	O	MISCELLANEOUS OFFICE MACHINES		C	E
7510	O	OFFICE SUPPLIES		C	D
7520	O	OFFICE DEVICES AND ACCESSORIES		C	E
7530	O	STATIONERY AND RECORD FORMS		D	E
7540	O	STANDARD FORMS		E	E
7610	X	BOOKS AND PAMPHLETS		D	D
7630	X	NEWSPAPERS AND PERIODICALS		B	E
7640	X	MAPS, ATLASES, CHARTS AND GLOBES		C	E
7641	X	AERONAUTICAL MAPS, CHARTS AND GEODEIC PRODUCTS		A	E
7642	X	HYDROGRAPHIC MAPS, CHARTS AND GEODEIC PRODUCTS		E	E
7643	X	TOPOGRAPHIC MAPS, CHARTS AND GEODEIC PRODUCTS		E	E
7644	X	DIGITAL MAPS, CHARTS AND GEODEIC PRODUCTS		A	E
7650	X	DRAWINGS AND SPECIFICATIONS		B	E
7660	X	SHEET AND BOOK MUSIC		A	E
7670	X	MICROFILM, PROCESSED		B	E
7690	X	MISCELLANEOUS PRINTED MATTER		D	E
7710	X	MUSICAL INSTRUMENTS		A	E
7720	X	MUSICAL INSTRUMENT PARTS AND ACCESSORIES		B	E
7730	X	PHONOGRAPHS, RADIOS AND TELEVISION SETS: HOME TYPE		A	E
7740	X	PHONOGRAPH RECORDS		A	E
7810	X	ATHLETIC AND SPORTING EQUIPMENT		A	E
7820	X	GAMES, TOYS AND WHEELED GOODS		A	E
7830	X	RECREATIONAL AND GYMNAS TIC EQUIPMENT		B	E
7910	F	FLOOR POLISHERS AND VACUUM CLEANING EQUIPMENT		B	E
7920	F	BROOMS, BRUSHES, MOPS AND SPONGES		B	E
7930	L	CLEANING AND POLISHING COMPOUNDS AND PREPARATIONS		B	E
8010	L	PAINTS, DOPES, VARNISHES AND RELATED PRODUCTS		E	E
8020	L	PAINTS AND ARTISTS BRUSHES		A	E
8030	L	PRESERVATIVE AND SEALING COMPOUNDS		E	E

8040	L	ADHESIVES		E	E
8105	K	BAGS AND SACKS	D		E
8110	K	DRUMS AND CANS	B		D
8115	K	BOXES, CARTONS AND CRATES	A		E
8120	K	COMMERCIAL AND INDUSTRIAL GAS CYLINDERS	A		E
8125	K	BOTTLES AND JARS	A		E
8130	K	REELS AND SPOOLS	A		E
8135	K	PACKAGING AND PACKING BULK MATERIALS	C		E
8140	K	AMMO AND NUCLEAR ORDINANCE BOXES, PACKAGES AND SPECIAL CONTAINERS	B		C
8145	K	SPECIALIZED SHIPPING AND STORAGE CONTAINERS	C		D
8305	T	TEXTILES FABRICS		A	C
8310	T	YARN AND THREAD		D	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
Bid Category(2) Assigned by DEMIL Code					
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
8315	T	NOTIONS AND APPAREL FINDINGS		A	E
8320	T	PADDING AND STUFFING MATERIALS		E	E
8325	T	FUR MATERIALS		E	E
8330	T	LEATHER		C	E
8335	T	SHOE FINDINGS AND SOLING MATERIALS		C	E
8340	T	TENTS AND TARPAULINS		B	E
8345	T	FLAGS AND PENNANTS		C	E
8405	T	OUTERWEAR, MENS		C	C
8410	T	OUTERWEAR, WOMENS		D	E
8415	T	CLOTHING, SPECIAL PURPOSE		A	C
8420	T	UNDERWEAR AND NIGHTWEAR, MENS		A	C
8425	T	UNDERWEAR AND NIGHTWEAR, WOMENS		D	E
8430	T	FOOTWEAR, MENS		A	E
8435	T	FOOTWEAR, WOMENS		B	E
8440	T	HOSIERY, HANDWEAR AND CLOTHING ACCESSORIES, MENS		C	C
8445	T	HOSIERY, HANDWEAR AND CLOTHING ACCESSORIES, WOMENS		B	E
8450	T	CHILDRENS AND INFANTS APPAREL AND ACCESSORIES		C	E
8455	T	BADGES AND INSIGNIA		A	E
8460	T	LUGGAGE		A	E
8465	T	INDIVIDUAL EQUIPMENT		A	C
8470	T	ARMOR, PERSONAL		C	E
8475	T	SPECIALIZED FLIGHT CLOTHING AND ACCESSORIES		C	C
8510	X	PERFUMES, TOILET PREPARATIONS AND POWDERS		A	E
8520	X	TOILET SOAP, SHAVING PREPARATIONS AND DENTIFRICES		D	E
8530	X	PERSONAL TOILETRY ARTICLES		A	E
8540	X	TOILETRY PAPER PRODUCTS		A	E
8710	X	FORAGE AND FEED		A	E
8720	X	FERTILIZERS		E	E
8730	X	SEEDS AND NURSERY STOCK		A	E
8810	X	LIVE ANIMALS, RAISED FOR FOOD		E	E
8820	X	LIVE ANIMALS, NOT RAISED FOR FOOD		A	E
8905	X	MEATS, POULTRY AND FISH		A	E
8910	X	DAIRY FOODS AND EGGS		E	E
8915	X	FRUITS AND VEGETABLES		E	E
8920	X	BAKERY AND CEREAL PRODUCTS		A	E
8925	X	SUGAR, CONFECTIONERY AND NUTS		A	E
8930	X	JAMS, JELLIES AND PRESERVES		C	E
8935	X	SOUPS AND BOUILLONS		E	E
8940	X	SPECIAL DIETARY FOODS AND FOOD SPECIALTY PREPARATIONS		D	E

8945	X	FOODS, OILS AND FATS	A	E
8950	X	CONDIMENTS AND RELATED PRODUCTS	B	E
8955	X	COFFEE, TEA AND COCOA	A	E
8960	X	BEVERAGES, NONALCOHOLIC	C	E
8965	X	BEVERAGES, ALCOHOLIC	E	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)	All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)	
			Bid Category(2) Assigned by DEMIL Code		
			DEMIL "A"	DEMIL "A"	DEMIL "B or Q"
8970	X	COMPOSITE FOOD PACKAGES		C	E
8975	X	TOBACCO PRODUCTS		E	E
9110	L	FUELS, SOLID		E	E
9130	L	LIQUID PROPELLANTS AND FUELS, PETROLEUM BASE		E	E
9135	L	LIQUID PROPELLANT FUELS AND OXIDIZERS, CHEMICAL BASE		E	E
9140	L	FUEL OILS		E	E
9150	L	OILS AND GREASES: CUTTING, LUBRICATING AND HYDRAULIC		E	E
9160	L	MISCELLANEOUS WAXES, OILS AND FATS		E	E
9310	N	PAPER AND PAPERBOARD	B		E
9320	N	RUBBER FABRICATED MATERIALS	D		E
9330	N	PLASTIC FABRICATED MATERIALS	C		E
9340	N	GLASS FABRICATED MATERIALS	D		C
9350	N	REFRACTORIES AND FIRE SURFACING MATERIALS	D		E
9390	N	MISCELLANEOUS FABRICATED NONMETALLIC MATERIALS	D		E
9410	X	CRUDE GRADES OF PLANT MATERIALS		B	E
9420	X	FIBERS: VEGETABLE, ANIMAL AND SYNTHETIC		A	E
9430	X	MISC CRUDE ANIMAL PRODUCTS, INEDIBLE		E	E
9440	X	MISC CRUDE AGRICULTURAL AND FORESTRY PRODUCTS		B	E
9450	N	NONMETALLIC SCRAP, EXCEPT TEXTILES		A	E
9505	S	WIRE, NONELECTRICAL IRON AND STEEL	B		E
9510	S	BARs AND RODS, IRON AND STEEL	A		E
9515	S	PLATE, STEEL, STRIP AND FOIL: IRON AND STEEL	A		E
9520	S	STRUCTURAL SHAPES, IRON AND STEEL	A		C
9525	S	WIRE, NONELECTRICAL, NONFERROUS BASE METAL	A		E
9530	S	BARs AND RODS, NONFERROUS BASE METAL	A		E
9535	S	PLATE, SHEET, STRIP AND FOIL: NONFERROUS BASE METAL	A		E
9540	S	STRUCTURAL SHAPES, NONFERROUS BASE METAL	A		E
9545	S	PLATE, SHEET, STRIP, FOIL AND WIRE: PRECIOUS METAL	A		E
9610	S	ORES	A		E
9620	N	MINERALS, NATURAL AND SYNTHETIC	B		E
9630	S	ADDITIVE METAL MATERIALS AND MASTER ALLOYS	A		E
9640	S	IRON AND STEEL, PRIMARY AND SEMIFINISHED PRODUCTS	A		E
9650	S	NONFERROUS BASE METAL REFINERY AND INTERMEDIATE FORMS	A		C
9660	S	PRECIOUS METALS PRIMARY FORMS	E		E
9670	S	IRON AND STEEL SCRAP		A	E
9680	S	NONFERROUS METAL SCRAP		A	E
9905	X	SIGNS, ADVERTISING DISPLAYS AND IDENTIFICATION PLATES		D	E
9910	X	JEWELRY		A	E
9915	X	COLLECTORS AND/OR HISTORICAL ITEMS		A	E
9920	X	SMOKERS ARTICLES AND MATCHES		B	D
9925	X	ECCLESIASTICAL EQUIPMENT, FURNISHINGS,		B	E

		AND SUPPLIES		
9930	X	MEMORIALS: CEMETERIAL AND MORTUARY EQUIPMENT AND SUPPLIES	A	E
9999	X	MISCELLANEOUS ITEMS (CANNOT CONCEIVABLY BE CLASSIFIED ELSEWHERE)	A	E

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Table IV-1
Product Pool Items(1) and Product Subpool Bid Categories by FSC and DEMIL Code

FSC No.	Commodity Code	FSC Description	Product Subpools		
			DEMIL "A"	DEMIL "A"	DEMIL "B" or "Q"
			CV-2 Items (CLIN 001):		
			CV-1 Items (CLIN 002: CONUS and DEMIL "A" Only; Non-CONUS DEMIL "A" Items are within CLIN 001)		
			All Listed FSCs Non-CONUS, All Listed FSCs DEMIL "B" or "Q" CONUS and Non-CONUS)		
			Bid Category(2) Assigned by DEMIL Code		

(1) "CV-2 Items" (CLIN 001) are to be referred for sale to the CV-2 Purchaser throughout the Performance Period at Delivery Points in CONUS, Alaska, Guam, Hawaii and Puerto Rico. "CV-1 Items" (CLIN 002) will be referred for sale to the CV-2 Purchaser in CONUS, if at all, only after the CV-1 Property Referral Date. The Bid Categories assigned in the "CV-1 Items" column apply without regard to the location or timing of the referral for sale to the CV-2 Purchaser. Thus, for example, DEMIL "A" items in FSC No. 8130, "Reels and Spools," are always assigned to "CV-1 Bid Category A" whether referred at the beginning of the Performance Period in Guam as a CV-2 Item or later in CONUS as a CV-1 Item.

(2) Product Subpool Bid Categories are assigned based upon FSC and DEMIL Code. A "blank" means no Bid Category was assigned because the item was not included in the respective sale contract within CONUS (CV-1 or CV-2).

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V. TERMS AND CONDITIONS OF SALE

The following General Information and Instructions and Special Conditions of Sale contained in the Defense Reutilization and Marketing Service pamphlet entitled "Sale by Reference—Instructions, Terms and Conditions Applicable to Department of Defense Personal Property Offered for Sale by Defense Reutilization and Marketing Service, March 1994" (hereinafter, "Sale by Reference"; a copy of the Sale by Reference is included as Attachment V), are hereby incorporated by reference and become a part of this IFB and any resulting contract:

- Part 1: General Information and Instructions: All Conditions, except Condition No. 4.
- Part 2: General Sale Terms and Conditions: All Conditions, except Condition Nos. 4, 7, 12, 14, 28, 29, 30, 32 and 33.
- Part 4: Special Sealed Bid—Term Conditions: All Conditions, except Articles A, D and E.
- Part 5: Additional Special Circumstance Conditions, as follows:
 - Article D: Liability and Insurance
 - Article F: Privacy Act Materials
 - Article H: Radio Frequency Devices
 - Article L: Medical Devices

The following Conditions from Part 7: Additional Special Circumstance Conditions—Hazardous and Dangerous Property:

- Article E: Dangerous Property
- Article Q: Cartridge Cases
- Article V: Certified and Non-Certified Radiation Emitting Electronic Products
- Article W: Radioactive Material

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VI. ADDITIONAL TERMS AND CONDITIONS OF SALE

The following Articles (not part of the Sale By Reference) also apply and constitute terms and conditions of sale.

ARTICLE ONE. BIDDING AND CONTRACT AWARD

Section 1. Bid Deposit.

Each bid must be accompanied by a refundable Bid Deposit in the form of a guaranteed instrument (cashier's or certified check) payable to "U.S. Treasury," in the amount of one-hundred thousand dollars (\$100,000.00).

Section 2. Bid Evaluation.

Award will be made to the responsive, responsible bidder that has submitted the highest Bid Price determined by applying the bidder's Bid Percentages to the Acquisition Values reported in Table III-2 above. The Government reserves the right **(i)** not to award a contract if such contract is deemed not to be in the Government's best interest, or **(ii)** to reject any particular bid if DRMS determines that accepting such bid would not be in the Government's best interest. Each Bid Percentage must be expressed as a percentage and must exceed zero, and only four (4) digits to the right of the decimal in a particular Bid Percentage, without rounding, will be included in computing a bidder's offered Bid Price and in computing the Contractor's Purchase Price of a particular item of Property during performance of the contract.

Section 3. Contract Award.

The "Key Persons" provisions of Contractor's technical proposal are incorporated into, and made part of, the resultant contract. Substitutions of Key Persons will be permitted only with the approval of the Sales Contracting Officer ("SCO"), and such substitutions will be approved only if the replacement individual is as well or better qualified for a particular position as the original designee. Prior to award of the contract, the SCO will determine whether the potential Contractor is a responsible prospective Contractor. If the SCO determines that a particular potential Contractor is not a responsive, responsible bidder, the responsibility of the bidder offering the next highest Purchase Price shall be evaluated by the SCO to determine whether such next highest bidder is a responsible prospective Contractor.

Section 4. Post-Award Conference.

The Government reserves the right to conduct a post-award conference within approximately two weeks of award to ensure that Contractor understands the terms and conditions of the contract. The location and date of the conference will be determined by the Government and the costs incurred by personnel affiliated with Contractor and/or Purchaser to

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attend shall be Contractor Indirect Costs, paid by Contractor without reimbursement by DRMS or Purchaser.

Section 5. Purchaser Information.

Within thirty (30) Days of the date of award, Contractor shall provide the following to DRMS (collectively, the "Purchaser Information"), and Purchaser shall provide to DRMS updated Purchaser Information within ten (10) Days of any change thereto:

(A) Notice to DRMS of Purchaser's complete legal name, type of business organization (corporation or limited liability company), place of formation (i.e., Delaware), Federal Employer Identification Number, and principal place of business.

(B) Copies to DRMS of all documents evidencing: **(i)** Purchaser's legal formation and internal governance; **(ii)** if Purchaser is a corporation, Purchaser's election of Subchapter S status for federal income tax purposes; and **(iii)** appointment of Purchaser's Registered Agent.

(C) Notice to DRMS of Purchaser's Operating Account and Purchase Account, including the name, address and telephone contact information of the bank(s) of deposit, account numbers, and identification of the signatories on the accounts.

(D) Copies of all documents evidencing the opening of the Operating and Purchase Accounts, including without limitation copies of the signature card(s), resolutions and instructions to the bank.

(E) Notice to DRMS of the designation of Key Persons, if any, in addition to those identified in Contractor's technical proposal. Two (2) Key Persons, including Purchaser's Chief Executive Officer, are required pursuant to the provisions of Article 13 to authorize certain payments and transfers from the Operating Account.

Section 6. Formation of Purchaser; Covenant of Contractor.

(A) Formation of Purchaser.

Upon award of the contract to Contractor, Contractor shall cause the formation of a single purpose Subchapter S corporation or limited liability company (the "Purchaser"), over which Contractor shall retain control and in which Contractor shall retain at least a majority (51%) ownership interest throughout the Performance Period and until completion of the Wind-up, to perform the contract as provided herein.

(B) Covenant of Contractor.

Contractor hereby covenants and agrees that, from and after the date of award and until completion of the Wind-Up, Purchaser will remain a single purpose Subchapter S corporation or limited liability company, the sole purpose of which is to perform this contract, and which will not form or acquire any subsidiary business entity.

Section 7. Transfer and Hypothecation.

(A) General Prohibition.

Except as specifically provided herein or specifically approved by DRMS in writing, neither Purchaser nor Contractor may directly or indirectly sell, transfer, assign, pledge, offer as collateral or otherwise hypothecate all or any part of its rights or obligations under the contract, or, with respect to Contractor, its ownership interest in Purchaser, provided, however, that (i) Contractor may convey or hypothecate a portion of its ownership interest in Purchaser if, after

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such conveyance, or after transfer in accordance with such hypothecation, Contractor retains control over and a majority (51%) ownership interest in Purchaser; and (ii) hypothecation of Contractor's distribution payments for the sole purpose of obtaining financing necessary to perform the contract shall not be deemed violative of the provisions of this Article and (iii) such sale, transfer, assignment or hypothecation is not to any individual or firm that is suspended, debarred or otherwise prohibited from participation in government contracts. For purposes of the general prohibition set forth in this Section 7(A), the sale, transfer or hypothecation by Contractor of any voting stock of any corporation that directly or indirectly owns any interest in Purchaser or of any partnership interest in any general or limited partnership that directly or indirectly owns any interest in Purchaser shall constitute an assignment or transfer of an interest in Purchaser within the meaning of this Section 7(A).

(B) Attempted Transfer.

Any attempted transfer in violation of the provisions of this Article shall be null and void, ab initio, and shall constitute a Material Breach of this contract.

(C) Consolidation with CV-1.

In the event that the CV-1 and CV-2 Contractors propose consolidation of the CV-1 and CV-2 sale contracts or operations, in whole or in part, DRMS shall not unreasonably condition, withhold or delay its approval.

Section 8. Contract of Sale.

(A) Relationship of Parties.

This contract is an agreement for the proceeds-sharing sale of the Property by DRMS as seller to Purchaser as buyer. Contractor and DRMS expressly disavow the creation of any other relationship, including without limitation principal-agent, master-servant, employer-employee, general or limited partnership, or joint venture, between DRMS and either Contractor or Purchaser.

(B) Parties to Contract.

The parties to this contract are DRMS, Contractor and, pursuant to the provisions of Section 10 of this Article 1, Purchaser. The exclusive representative of DRMS for all purposes under this contract is the SCO, and all notices, demands, requests, consents, approvals, declarations, reports and other communications to DRMS from Contractor or Purchaser shall be deemed ineffective unless addressed to the SCO and delivered in compliance with the provisions of Article 22, Section 2. Kormendi\Gardner Partners ("KGP") is the DRMS Financial Advisor. KGP is neither a party to the contract nor an agent of DRMS for any purpose. Communications from Contractor or Purchaser to KGP shall not be deemed received by DRMS unless provided to DRMS in compliance with the provisions of Article 22, Section 2.

Section 9. Authority of Sales Contracting Officer.

The SCO has the authority on behalf of DRMS **(i)** with respect to matters committed by the provisions of this contract to the exercise of DRMS's sole discretion, to exercise such discretion, **(ii)** with respect to all matters hereunder, to represent DRMS and to commit DRMS to take such actions as are permitted or required hereunder, and **(iii)** to extend or waive timing requirements or deadlines as may reasonably be required under the circumstances.

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Section 10. Execution by Purchaser.

Within thirty (30) Days of the date of award, Contractor shall cause Purchaser's Chief Executive Officer to execute on behalf of Purchaser and deliver to DRMS the Confirmation of Purchaser as Co-Signatory and Co-Obligor, the form of which is attached as Attachment VI.1.9. Notwithstanding the failure to deliver or delay in delivering such properly executed document to DRMS, Purchaser shall be deemed to be a co-signatory and co-obligor with Contractor with respect to this contract effective from the date of award and Purchaser and Contractor shall be jointly and severally liable for the performance of their respective obligations under this contract.

Section 11. Replacement Contractor.

In the event of a Termination of the original Contractor within sixty (60) Days of the date of award, the SCO may award the contract to the next highest bidder that is determined by the SCO to be responsible if bids have not expired, and such award is otherwise determined to be in the Government's best interest, price and other factors considered.

Section 12. Referral of CV-1 Property.

(A) Termination or Cancellation of CV-1.

If referrals of CV-1 Items by DRMS for sale to the CV-1 buyer end due to exercise of the early cancellation option in the CV-1 contract or due to termination by DRMS by reason of a default by the CV-1 buyer, DRMS may elect in the exercise of its sole discretion to refer the CV-1 Items for sale to Purchaser pursuant to the provisions of this contract, and Purchaser shall be required to purchase such items as provided herein. DRMS shall provide written notice of such election to Purchaser.

(B) Expiration of CV-1.

If referrals of CV-1 items by DRMS for sale to the CV-1 buyer end other than by reason of cancellation or termination for default, DRMS shall thereafter refer the CV-1 Items for sale to Purchaser pursuant to the provisions of this contract, and Purchaser shall be required to purchase such items as provided herein. DRMS shall provide written notice thereof to Purchaser.

(C) CV-1 Property Referral Date.

The date upon which the initial Property Referral List that includes CV-1 Items shall be issued to Purchaser (the "CV-1 Property Referral Date") shall be the date that is thirty (30) Days following the date of the DRMS notice to Purchaser that is required by the provisions of this Section 12(C) provided, however, that DRMS and Purchaser may agree to any other date. Subject to the early cancellation option provisions of Section 2 of Article 2, referrals of CV-1 Items by DRMS for sale to Purchaser shall continue thereafter throughout the Performance Period.

Section 13. Non-DRMS Assets

Periodically, DRMS sells non-excess items. Title to these items remains with the military service until the sale is complete. As such, these items are not entered on DRMS's inventory and are not automatically included on this sale contract. Notwithstanding, DRMS may choose, with Purchaser's agreement, to sell these items to the Purchaser on a case-by-case basis. As the Government's share of the net revenue from the sale of these items is payable through DRMS to the owning military service, all reasonably segregable costs and revenues must be discretely accounted for and reported to DRMS as agreed by the parties. The sale of such items shall be

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governed by the provisions hereof pertaining to Property referral, storage, removal, billing, payments and related matters except as otherwise required by DRMS and agreed by Purchaser.

Section 1. Performance Period.

Subject to the early cancellation option provisions of Section 2 of this Article 2, the Government shall provide the Property for an eighty-four (84) month period (the "Performance Period") from the date of submission to Purchaser of the initial Property Referral List.

Section 2. Early Cancellation Option.

(A) Beginning with the fourth (4th) Quarterly Report and in each Quarterly Report thereafter, Purchaser shall calculate and report the "CV Performance Ratio" for "Performance Ratio Property" (as such terms are defined below) with respect to the immediately preceding calendar year period and for each of the two immediately preceding calendar quarter periods.

(B) The "CV Performance Ratio" equals Gross Proceeds obtained by Purchaser during a particular such period from the sale of "Performance Ratio Property," divided by the total Acquisition Value of all such Property sold by Purchaser during such period. "Performance Ratio Property" means all items of Property in the Product Pool with the combinations of FSC and DEMIL Code identified in the attached Schedule VI.2.2(B).

(C) The "Benchmark Performance Ratio" equals (i) the sum of the products, determined with respect to and weighted by the particular items of Performance Ratio Property identified by the particular combinations of FSC and DEMIL Code sold by the Purchaser during such period, of (x) The "Performance Ratio Gross ROR" set forth in such schedule VI 2.2(B), multiplied by (y) Acquisition Value, which sum is divided by (ii) the total Acquisition Value of all Performance Ratio Property sold by Purchaser during the period.

(D) If the CV Performance Ratios for such calendar year period and for both such calendar quarter periods are less than the respective Benchmark Performance Ratios, either DRMS or Contractor may in its sole discretion cause Termination by notice served within thirty (30) Days of the delivery to DRMS of such Quarterly Report and effective five (5) Days after the date of service of the notice.

ARTICLE THREE. R/T/D REVIEW; REFERRAL AND REMOVAL OR ABANDONMENT OF PROPERTY; RCP AND SPECIAL SITUATION PROPERTY; TITLE TO PROPERTY; RISK OF LOSS

Section 1. R/T/D Review; Property Referral List

(A) R/T/D Review.

Each item received by DRMS that otherwise conforms to the definition of the "Property" shall be submitted for R/T/D review within fifteen (15) Days of receipt by DRMS. Contractor acknowledges that R/T/D review requires forty-two (42) Days to an item's End of Screening Date plus an additional fifteen (15) Days thereafter. Each item that is received by DRMS and

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otherwise conforms to the definition of the "Property" shall be sold by DRMS only to Purchaser upon conclusion of the R/T/D period as provided herein.

(B) Property Referral List.

(1) At least twice per calendar month, and no more often than weekly, the Government shall furnish a consolidated list (the "Property Referral List") of Property referred for sale under the contract in a format as provided in Article 4. Purchaser will not be charged for Line Items unavailable for removal. Purchaser shall pay the Contractor's Purchase Price for all Line Items available for removal. The Contractor's Purchase Price is based on the Government established "Acquisition Value" of each particular item of Property as reported on the corresponding Property Referral List. The Acquisition Value is based on Government data and is not subject to dispute other than as provided in Article 6. Delivery of the initial Property Referral List after award of the contract, and Purchaser's initial removal of Property, shall be governed by the provisions of Sections 8 and 9 below of this Article 3.

(2) Each item of Property shall be identified on a Property Referral List that is submitted to Purchaser reasonably promptly after such item's End of Screening Date.

Section 2. Delivery Points; DRMS Customer Liaison; Phase-In Period; DRMS Infrastructure Reduction.

(A) Delivery Points.

Property that is referred for sale to Purchaser shall be located within the United States (including Alaska and Hawaii), Guam or Puerto Rico, at (i) a DRMO, (ii) a DLA supply depot or associated warehousing facility ("DLA Depot"), (iii) a warehousing facility other than a DRMO that is operated by or on behalf of DRMS ("DRMS Warehouse"), (iv) other governmental locations, including without limitation military facilities and such other locations as may be designated in its sole discretion by DRMS (collectively, "Special Situation Locations"), or (v) a warehousing facility operated by or on behalf of Purchaser ("Purchaser Warehouse"). (DRMOs, DLA Depots, DRMS Warehouses, Special Situation Locations and Purchaser Warehouses are hereinafter collectively termed "Delivery Points.") DRMS may elect in its sole discretion and at its sole expense to pack, load and transport Property, either before or after R/T/D review, to any Delivery Point either before or in connection with referring such Property for sale to Purchaser. DRMS and Purchaser may elect in the exercise of their sole discretion to have particular items of Property shipped by or on behalf of DRMS directly to Purchaser's re-sale buyers and to allocate the costs thereof between DRMS and Purchaser as the parties may agree.

(B) Delivery Point Directory; DRMS Customer Liaison.

(1) Within 30 days of award of this contract, DRMS shall provide to Contractor, in writing and in machine readable word processing (*.doc) file format, the listing (the "Delivery Point Directory") as of the date of award of all operating DRMOs, DRMS Warehouses and DLA Depots in the United States, Guam and Puerto Rico with DRMO Name, DRMO RIC and RIC Suffix, the address and telephone for each such facility an indication of whether such facility is initially designated by DRMS as a Restricted Access Facility, and with respect to each listed facility, the name of the DRMS employee or other government representative designated by DRMS to serve as the principal point of contact for Purchaser with respect to such facility (each, the "DRMS Customer Liaison" for such facility), the address and telephone of the DRMS Customer

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Liaison if either differs from that for the facility itself, the electronic mail address for the DRMS Customer Liaison if available, a supervisory contact for the DRMS Customer Liaison, and the date, if applicable, and if publicly available, that such facility is scheduled to be closed.

(2) Throughout the Performance Period, DRMS shall provide notice to Purchaser reasonably promptly of changes in the Delivery Point Directory, including without limitation notice of any scheduled or actual establishment or closure of any DRMO, DRMS Warehouse or DLA Depot in the United States, Guam or Puerto Rico, such notice to be provided within thirty (30) Days of the date that knowledge of such scheduled or actual establishment or closure becomes available to the public.

(3) The DRMS Customer Liaison for the DRMO, DRMS Warehouse or DLA Depot that is identified on a Property Referral List as the accountable DRMS facility for a particular item of Property shall arrange or permit reasonable access for Purchaser to such Property as provided herein.

(C) Phase-In Period.

Purchaser shall phase in its performance of the contract as provided in this Section.

(1) Within five (5) months of the post-award conference, (i) Purchaser shall begin accepting Delivery of Property at the fifteen (15) “Initial Delivery Points” identified in Table VI.3.2.C below, and (ii) Purchaser shall serve notice to DRMS of Purchaser’s proposed schedule for accepting referrals of Property at the balance of the locations in the Delivery Point Directory. Within fifteen (15) Days after receipt of such notice, DRMS shall serve notice to Purchaser of the schedule (the “Phase-In Schedule”) for phasing in referrals at all Delivery Points. Unless DRMS in the exercise of its sole discretion elects to extend the Purchaser’s proposed timetable, the Phase-In Schedule shall provide for referrals to begin at all Delivery Points no later than eight (8) months after the post-award conference. Purchaser may require DRMS to begin referrals at some or all of the Initial Delivery Points earlier than five months after the post-award conference by serving its request therefor with three months or more notice. Purchaser may request acceleration of referrals at any Delivery Point, and DRMS will respond to such request in the exercise of its sole discretion. DRMS shall refer Property for sale to Purchaser only as provided on the Phase-In Schedule until the date that is six (6) months after the date that the initial Property Referral List is submitted to Purchaser (such six month period being the “Phase-In Period”) except as the Phase-In Schedule may be modified by agreement reached by the parties in the exercise of the sole discretion of each. During the Phase-In Period DRMS reserves the right to sell to buyers, other than Purchaser, such Property that is located at Delivery Points that, pursuant to the Phase-In Schedule, are at the time not yet scheduled for referrals of Property for sale to Purchaser. Subject to staffing and facilities constraints, DRMS intends to accumulate Property at each particular Delivery Point in advance of the scheduled first referral of Property there to provide the Purchaser with some beginning inventory with which to begin its operations. Nevertheless, DRMS cannot and does not represent that there will be any particular level of inventory, or necessarily any at all, at any particular site when referrals of Property begin there.

**Table VI.3.2.C
Initial Delivery Points**

No.	Name	City	State
1	Lejeune	Jacksonville	FL
2	Mechanicsburg	Mechanicsburg	PA
3	San Antonio	San Antonio	TX
4	Riley	Fort Riley	KS
5	Tucson	Tucson	AZ
6	Stockton	Stockton	CA
7	Texarkana	Hooks	TX
8	San Diego	Imperial Beach	CA
9	Warner Robbins	Warner Robbins	GA
10	Oklahoma City	Oklahoma City	OK
11	Jackson	Columbia	SC
12	Corpus Christi	Corpus Christi	TX
13	Barstow	Barstow	CA
14	Meade	Baltimore	MD
15	Eglin	Ft. Walton Beach	FL

(2) During the Phase-In Period, DRMS shall not refer Property that is located at DLA Depots or at Special Situation Locations for sale to Purchaser, provided, however, that Purchaser may request to receive Property at any such location by so notifying DRMS, and DRMS shall exercise reasonable efforts to accommodate any such request

(3) Upon the conclusion of the Phase-In Period and thereafter during the balance of the Performance Period, DRMS shall refer all Property at all United States, Guam and Puerto Rico DRMOs and all other Delivery Points for sale to Purchaser under the contract.

(D) DRMS Infrastructure.

Contractor acknowledges that DRMS intends to reduce its infrastructure, including without limitation by closure of some or all DRMOs and/or reduction of operating hours at particular DRMOs, or by establishment of DRMS Warehouses, or by other methods or combinations of methods. Contractor further acknowledges that this contract shall remain in force notwithstanding such infrastructure reduction measures that DRMS in its sole discretion may effect.

(E) Maximum Number of DRMOs and DRMS Warehouses.

DRMS does not expect to operate in excess of two hundred (200) DRMOs and DRMS Warehouses within the United States at any one time during the Performance Period. At any time that such number is exceeded, all Property referred for sale to Purchaser at such facilities that are the then most recently established such facilities and comprise the excess over two hundred (200) shall be deemed to be referred for sale at Special Situation Locations and not

made available for On-Site Processing for the purpose of determining Seller Indirect Costs pursuant to the provisions of Section 4(F) of this Article 3.

Section 3. R/T/D of the Property; Property Storage; Delivery of Property to Purchaser and Passage of Title.

(A) R/T/D of the Property.

(1) With respect to Property referred for sale at any particular DRMO or DRMS Warehouse other than Restricted Access Facilities, DRMS shall from time to time elect in the exercise of its sole discretion either (i) to segregate the Property physically at government expense from other DRMS items as received from generators and conduct R/T/D of the Property in such segregated space (“Segregated R/T/D”), or (ii) to conduct R/T/D of the Property and other DRMS items together (“Commingled RTD”).

(2) DRMS shall conduct R/T/D of Property referred for sale at Restricted Access Facilities, DLA Depots and Special Situation Locations as DRMS elects from time to time in the exercise of its sole discretion.

(3) In the event that the CV-1 and CV-2 sale contracts or operations are consolidated, the mixing of CV-1 and CV-2 Property for R/T/D review shall not be deemed “Commingled RTD” as such term is used in this Article 3.

(B) Property Storage.

(1) Each DRMO and DRMS Warehouse other than Restricted Access Facilities shall provide to Purchaser (i) a portion of its administrative space to the extent that DRMS determines in the exercise of its sole discretion that such space can be made available, (ii) a contiguous portion of its covered storage space, and (iii) a contiguous portion of its outdoor storage space (such storage space being, collectively, “Purchaser’s Dedicated Storage.” DRMS shall specify on the Phase-In Schedule the initial space allocations for the facilities designated thereon, and DRMS shall notify Purchaser of the initial space allocations at all other DRMOs and DRMS Warehouses within ninety (90) Days of submission of the initial Property Referral List to Purchaser. Such initial space allocations shall be specified by DRMS in the exercise of its sole discretion. After referrals of Property for sale to Purchaser have begun at any particular facility, including facilities established by DRMS after the date of award, DRMS and Purchaser shall adjust space allocations from time to time as is reasonably required in the circumstances to accommodate relative inflows to the facility of Property and other DRMS items. Purchaser may use Purchaser’s Dedicated Storage to store, inspect, lot, tag, pack and load Property as provided herein, or for any other purpose that is desired by Purchaser in the exercise of its sole discretion and that is not inconsistent with the express provisions of this contract.

(2) At DRMOs and DRMS Warehouses other than Restricted Access Facilities, DRMS shall provide reasonably necessary utility services to Purchaser to the extent that DRMS determines in the exercise of its sole discretion that such services, including water, electricity, heat and telephones, are available at a particular facility. Subject to approval by DRMS, which approval shall not be unreasonably withheld, and subject to host installation restrictions, Purchaser may arrange for additional services at any particular such facility in the exercise of its sole discretion and at Purchaser’s sole expense.

(3) Subject to approval by DRMS, which approval shall not be unreasonably withheld, and subject to host installation restrictions, Purchaser may install fixtures or make other improvements to the premises at any particular DRMO or DRMS Warehouse other

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than Restricted Access Facilities, provided, however that any such improvements permanently affixed to such premises shall become the property of DRMS at the conclusion of the Wind-Up if so designated by DRMS in the exercise of its sole discretion at any time during the final ninety (90) Days of the Performance Period.

(4) Except as otherwise provided herein, Purchaser shall not be provided Purchaser’s Dedicated Storage or administrative space at DLA Depots, Special Situation Locations or Restricted Access Facilities except as a particular facility’s restrictions permit.

(C) Transfer to Purchaser of Control Over and Title to the Property.

DRMS shall transfer to Purchaser control over and title to particular items of Property as provided in this Subsection 3(C) (such transfer being the “Delivery” of the subject Property). Delivery of particular items of Property shall not occur before submission to Purchaser of the corresponding Property Referral List. DRMS and Purchaser shall cooperate to effect Delivery of Property reasonably promptly after such submission.

(1) **DRMOs and DRMS Warehouses other than Restricted Access Facilities.** Delivery of Property at DRMOs and DRMS Warehouses other than Restricted Access Facilities shall be effected as follows.

a. DRMS and Purchaser shall review the Property Referral List and the corresponding items of Property and jointly acknowledge in writing the Delivery and the date thereof, with any missing Line Items noted on such writing.

b. If DRMS elects Commingled R/T/D, DRMS shall transfer at government expense the subject Property to Purchaser’s Dedicated Storage and Delivery shall occur upon such transfer.

c. If DRMS elects Segregated R/T/D, DRMS shall elect in its sole discretion either (i) Delivery of the subject Property in place, and Delivery shall occur upon the review by DRMS and Purchaser of the Property Referral List and the corresponding items of Property, or (ii) Delivery upon transfer of the subject Property by DRMS at government expense to Purchaser’s Dedicated Storage.

d. Purchaser shall transfer Property that is delivered in place to Purchaser’s Dedicated Storage as reasonably required to accommodate DRMO operations upon request by DRMS. DRMS may elect in the exercise of its sole discretion, at any time and at government expense, to transfer Property that has been delivered in place to Purchaser’s Dedicated Storage.

e. Notwithstanding any provision herein to the contrary, DRMS and Purchaser shall cooperate as reasonably required to facilitate the R/T/D review, Delivery and re-sale of any Property that, due to size, weight, location, space limitations, handling difficulty or other characteristics, requires special procedures to effect processing and re-sale economically. Such special procedures may include, without limitation, DRMS receipt, R/T/D review, Delivery and direct re-sale by Purchaser without moving the Property after receipt and prior to re-sale.

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(2) **Restricted Access Facilities, DLA Depots and Special Situation Locations.** Delivery of Property at Restricted Access Facilities, DLA Depots and Special Situation Locations shall occur upon removal of the subject Property from its Delivery Point by or on behalf of Purchaser. If an authorized representative of Purchaser effects removal, DRMS and Purchaser shall review the subject items of Property and acknowledge in writing the Delivery and the Date thereof, with any missing Line Items noted on such writing. If a person, vendor or subcontractor other than an authorized representative of Purchaser effects removal, Delivery shall occur upon removal and Purchaser shall review the subject items of Property upon arrival at Purchaser's storage facility and shall notify DRMS reasonably promptly of any missing Line Items.

(3) **Purchaser Warehouses.** DRMS may elect in the exercise of its sole discretion and at its sole expense to pack, load and transport Property from government-controlled premises for referral for sale to Purchaser at Purchaser Warehouses. In that event, Delivery shall occur upon removal from such Government-controlled premises and Purchaser shall review the subject items of Property reasonably promptly upon arrival and shall notify DRMS reasonably promptly of any missing Line Items.

Section 4. Access to Property; Removal; On-Site Processing; Costs of Removal.

(A) Purchaser's Access to Property.

(1) Purchaser, Purchaser's subcontractors and Contractor shall have access to Property at each DRMO and DRMS Warehouse during all hours that such facility normally staffs sales, warehousing, receiving or other functions, and in no event for less than two (2) Business Days each calendar week for at least eight (8) hours each, to inspect, lot, tag, pack, load or ship such Property, and, except as otherwise provided herein, for such other purposes as Purchaser deems appropriate in its sole discretion. Purchaser shall coordinate such access with the management of each particular DRMO or DRMS Warehouse. Except as otherwise provided herein, and subject to applicable law and host installation regulations, Purchaser may store and use Purchaser's materials handling equipment such as forklifts at DRMOs and DRMS Warehouses other than Restricted Access Facilities. Subject to applicable law and host installation regulations, DRMS shall provide for the use of Purchaser, at government expense and at any particular DRMO or DRMS Warehouse, such government owned materials handling equipment as is available for the materials handling tasks that are reasonably required of Purchaser at such Delivery Point.

(2) Due to host installation restrictions or for other reasons, a particular DRMO or DRMS Warehouse may occasionally and temporarily be unable to provide storage as provided in Section 3 above of this Article 3 or access as provided in Subsection (1) above of this Section 4(A). Any such facility that is not reasonably able to provide such storage or access other than occasionally and temporarily shall be deemed a "Restricted Access Facility." Concurrently with award of this contract, DRMS shall provide to Contractor in writing a list of DRMOs and DRMS Warehouses that DRMS initially designates as Restricted Access Facilities. DRMS may add or delete entries on that list from time to time by written notice to Purchaser.

(3) Except as provided in Sections 4(C) and 4(E) below of this Article 3, Purchaser shall not be permitted access at any time to any Property at DLA Depots, Special Situation Locations and Restricted Access Facilities, other than such access as is reasonably necessary for removal of Property when removal of such Property is requested by DRMS.

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Except as otherwise provided herein, Purchaser shall neither use nor store Purchaser's materials handling equipment at DLA Depots, Special Situation Locations and Restricted Access Facilities. Subject to applicable law and host installation regulations, DRMS shall provide to Purchaser, at government expense and at any such Delivery Point, the use of such materials handling equipment as is available for the materials handling tasks that are reasonably required of Purchaser at such Delivery Point.

(4) Except as otherwise provided herein, the on-site call of an auction sale or spot bidding shall not be permitted at any time at any Delivery Point without express permission from DRMS upon request from Purchaser, which request may be granted or denied by DRMS in the exercise of its sole discretion.

(5) Purchaser shall comply with all applicable safety regulations at host installations, including, without limitation, regulations pertaining to materials handling equipment.

(B) Re-Sale Buyers' Access to Property.

Except as provided in Sections 4(C), 4(D) and 4(E) below of this Article 3, Purchaser's prospective re-sale buyers shall not be permitted access to Property at any Delivery Point at any time.

(C) Removal; Packing and Loading.

(1) **Removal.** Except as provided in Section 4(E) below, and except in special circumstances that reasonably delay removal, Purchaser shall cause removal of Property as follows:

a. With respect to Property that is located at a DRMO or DRMS Warehouse, as is reasonably necessary from time to time to accommodate the inflow of Property to Purchaser's Dedicated Storage at any particular such facility, provided, however, that, except by special arrangement with a particular Restricted Access Facility, Property referred for sale at Restricted Access Facilities shall be removed no later than the earlier of (i) sixty (60) Days after submission to Purchaser of the corresponding Property Referral List, or (ii) reasonably promptly upon request by DRMS.

b. With respect to Property that is located at a Special Situation Location and Property that is located at a DLA Depot other than RCP Property, within thirty (30) Days of delivery of the corresponding Property Referral List unless DRMS directs earlier removal pursuant to the provisions of Subsection (c) below of this Section 4(C)(1). The DRMS Customer Liaison shall timely notify Purchaser of whether Purchaser will be required to pack and/or load such Property. If Purchaser's initial attempt to remove the Property is unsuccessful because, notwithstanding such notice, the Property is inadequately packed by government personnel or loading by government personnel is unexpectedly unavailable, Purchaser shall return within thirty (30) Days with materials and equipment necessary to effect removal.

c. Occasionally and as circumstances reasonably require, DRMS may direct removal of Property within shorter time periods than those provided in Subsections (b) and (c) above of this Section 4(C)(1). All such Property shall be deemed to be referred

(2) Packing and Loading.

a. Property at DRMOs and DRMS Warehouses. Property at DRMOs and DRMS Warehouses, other than Restricted Access Facilities, shall be packed by Purchaser. If Purchaser so requests and government personnel are reasonably available therefor, DRMS or other government personnel shall transport the Property to Purchaser's conveyance and place the Property thereon at government expense but shall not enter upon such conveyance or secure the Property for transport. Purchaser shall both pack and load such Property for removal by Purchaser's re-sale buyers. Removal of Property from DRMOs and DRMS Warehouses other than Restricted Access Facilities by Purchaser's re-sale buyers shall be permitted throughout the Performance Period. Costs incurred by Purchaser for packing and loading Property at DRMOs and DRMS Warehouses shall be Direct Costs.

b. RCP Property at DLA Depots. RCP Property at DLA Depots shall be packed suitably for transport by government personnel at government expense. Such Property shall be shipped to the particular destination or destinations that Purchaser designates in the exercise of its sole discretion, and Purchaser shall be charged as a Direct Cost the DLA shipping charge then applicable to such Property.

c. Other Property at DLA Depots; Special Situation Locations; Restricted Access Facilities. Property other than RCP Property referred for sale to Purchaser at DLA Depots, and Property referred for sale at Special Situation Locations and Restricted Access Facilities, shall be packed and loaded suitably for transport by DRMS or other government personnel at government expense, provided, however, that Purchaser shall pack and/or load such Property as requested by DRMS upon reasonable notice, and the actual and minimum reasonable costs thereof shall be Seller Indirect Costs. Except as provided in Section 4(E) of this Article 3 below, Purchaser's re-sale buyers may not pick up Property at DLA Depots, Special Situation Locations and Restricted Access Facilities.

(D) On-Site Processing.

Purchaser's prospective re-sale buyers shall be permitted access subject to host installation restrictions to each DRMO and DRMS Warehouse other than Restricted Access Facilities to inspect the Property in connection with Purchaser's marketing activities, including without limitation off-site auctions and negotiated sales. Such prospective re-sale buyers shall be accompanied within the DRMO or DRMS Warehouse at all times by Purchaser or its designee. Re-sale buyer access at a particular DRMO or DRMS Warehouse shall be permitted for at least two (2) Business Days each calendar week for at least eight (8) hours each, provided, however, that **(i)** Purchaser shall coordinate such access with the management of each particular DRMO or DRMS Warehouse, **(ii)** Purchaser shall conduct such re-sale buyer access in a manner that is not unreasonably disruptive of the facility's operations, and **(iii)** such re-sale buyer access shall be permitted only during such times as Purchaser access is permitted pursuant to the provisions of Section (4)(A)(1) above of this Article 3. (Re-sale buyer access to Property as provided in this Section 4(D) is hereinafter termed "On-Site Processing.")

(E) DRMS Option to Permit On-Site Processing.

Throughout the Performance Period, DRMS in the exercise of its sole discretion may designate particular Property at a particular DLA Depot, Special Situation Location or Restricted Access Facility as available for On-Site Processing by serving notice thereof upon or after delivery of the Property Referral List and before removal of such Property by Purchaser. On-Site Processing of such Property at such location shall be permitted for sixty (60) Days following service of such notice, and Purchaser shall cause removal of such Property within such sixty (60) Day period. The DRMS Customer Liaison for such Property shall arrange access to the Property for Purchaser and for prospective re-sale buyers throughout such sixty (60) Day period that is consistent with the provisions of Sections 4(A)(1) and 4(D) above of this Article 3.

(F) Costs of Removal.

(1) On-Site Processing, DRMOs, DRMS Warehouses. With respect to Property that is made available to Purchaser for On-Site Processing, the costs incurred by Purchaser to transport such Property from its Delivery Point are Direct Costs.

(2) RCP Property. The costs of removing RCP Property referred for sale at a DLA Depot shall be governed by the provisions of Section 4(C)(2)(b) above of this Article 3.

(3) Other Property. With respect to Property referred for sale at **(i)** Special Situation Locations that is not made available for On-Site Processing, **(ii)** DLA Depots other than RCP Property, and **(iii)** Restricted Access Facilities, the actual and minimum reasonable costs incurred by Purchaser to pack, load and surface transport such Property from its Delivery Point to Purchaser's nearest storage facility are Seller Indirect Costs, provided, however, that transport costs in excess of one dollar and twenty cents (\$1.20) per mile, and for transport in excess of five hundred (500) miles from the Delivery Point, shall be deemed Direct Costs. Purchaser shall notify DRMS within fifteen (15) Days of the establishment or closure of each storage facility operated by or for Purchaser, and for each newly established facility such notice shall include address, telephone and on-site management contact information.

(G) Base Closures.

(1) Contractor acknowledges that, subject to change by the Department of Defense, certain defense installations are scheduled for closure (each, a "Base Closure") during the prospective Performance Period of this contract. Such Base Closures presently include Seneca Army Depot, Romulus, New York, and McClellan Air Force Base, Stockton, California, both presently scheduled for September 30, 2000. Contractor further acknowledges that Base Closures often generate substantially increased volumes of surplus items that must be processed on accelerated schedules.

(2) DRMS and Purchaser shall cooperate and institute special procedures as reasonably necessary in connection with Base Closures to process and re-sell Property efficiently. Such cooperation shall include, without limitation, facilitation of shortened R/T/D review periods, extended access for Purchaser and re-sale buyers, on-site calls of auctions and spot bidding, and other special procedures as reasonably required.

(H) Damage to Government Property; Clean-Ups of Spills.

Purchaser shall be responsible to DRMS for any damage that is caused to any government equipment or facility or DRMS Warehouse that arises out of the negligence of Purchaser, its vendors or its re-sale buyers. Purchaser shall be responsible for cleaning up spills of hazardous

material caused by Purchaser, its vendors or its re-sale buyers without regard to degree of culpability.

Sections 5. Title.

Title to the Property shall vest in Purchaser upon Delivery of the Property. If Purchaser makes a determination under Section 6 below to choose to abandon all rights to any Property, the Government will retain the payment for such items. With respect to Property that is not abandoned, any subsequent re-sale transactions are between Purchaser and the re-sale buyers, not between the Government and the re-sale buyers. Any disputes or claims resulting from such transactions are between Purchaser and re-sale buyers, not the Government.

Section 6. Abandonment.

Except with respect to RCP Property referred for sale at a DLA Depot, Purchaser has the option before removal of a particular item of Property from its Delivery Point to abandon all rights to any Property included on a Property Referral List and not be required to effect removal. Except as otherwise provided herein, abandonment does not relieve Purchaser of the responsibility for payment of the Contractor's Purchase Price as provided in Article 5. Such determination to abandon Property must be made in writing to the SCO as soon as possible but not later than ninety (90) Days from submission of the corresponding Property Referral List, provided, however, that, in the exercise of its sole discretion, DRMS may grant one or more extensions of this deadline in response to a request therefor submitted to the SCO in writing from Purchaser before the expiration of the right to abandon as provided in this Section 6.

Section 7. Risk of Loss.

DRMS shall bear the risk of loss, damage or destruction of the Property until Delivery thereof in accordance with the provisions of Section 3(C) above of this Article 3, and Purchaser shall bear such risk thereafter, provided, however, that **(i)** Purchaser shall pay to DRMS the full amount of the Contractor's Purchase Price for any item of Property lost or damaged before passage of title as a result of Purchaser's negligence, but DRMS shall have no claim for consequential damages against Purchaser or Contractor based upon such loss or damage, and **(ii)** Purchaser shall be entitled to a credit for the full amount of the Contractor's Purchase Price for any item of Property that is lost or damaged while located at a Delivery Point as a result of negligence on the part of the Government or any contractor of the Government, but neither Purchaser nor Contractor shall have a claim against the Government for consequential damages based upon such loss or damage, and **(iii)** the party asserting a claim under the provisions of this Section 7 shall serve notice thereof to the other party within a reasonable time after the facts underlying such claim are discovered or, in the circumstances, should have been discovered.

Section 8. Initial Property Referral List.

DRMS shall deliver the initial Property Referral List to Purchaser on the date that is the later of **(i)** the date provided therefor in the Phase-In Schedule, or **(ii)** the date by which DRMS has received and, as required in certain respects by the provisions of this contract, has approved, all of the materials and information required to be provided to DRMS under the provisions hereof. Such provisions include but are not necessarily limited to the provisions of Article 1 (Purchaser Information and Confirmation of Purchaser as Co-Signatory and Co-Obligor), Article

5 (Pre-Payment), Article 11 (evidence of required insurance coverage), and Article 20 (designation of Contractor's Appointed Arbitrator).

Section 9. Initial Removal of Property.

Purchaser shall not remove any Property from any Delivery Point until submission of the initial Property Referral List by DRMS to Purchaser.

ARTICLE FOUR. PROPERTY REFERRAL LIST

Section 1. Access to R/T/D Inventory in Process.

DRMS shall post information on current R/T/D inventory in process on the DRMS World Wide Web internet site, <http://www.drms.dla.mil>.

Section 2. Property Referral List.

At least twice monthly and no more often than weekly, DRMS shall provide to Purchaser, in machine readable, comma delimited text format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, the following information for all items of Property being referred for sale under this contract (the "Property Referral List") since the immediately preceding Property Referral List:

(A) DRMO Name (DRMO_NAME). The name of the accountable DRMO, DRMS Warehouse or DLA Depot in a 19 character field. The name usually reflects physical location (e.g., DRMO Tobyhanna is located on Tobyhanna Army Depot).

(B) DRMO RIC and RIC Suffix (DRMO_RIC and RIC_SFX). Together these 3 and 1 character, respectively, alphanumeric fields provide the electronic name of the DRMO, DRMS Warehouse or DLA Depot where the turn-in of Property was processed.

(C) Disposal Turn in Document Number (DTID_NO). The "DTID" is the official form (DD 1348-1) used by all military services to turn in excess property. DTID_NO is a 14 or 15 character alphanumeric code in a 15 character field. It consists of:

- (1) a 6 character Department of Defense Activity Account Code (DODAAC) that identifies the turn-in activity
- (2) a 4 digit Julian date
- (3) a 4 to 5 digit serial number.

A particular value for DTID_NO may be assigned either to a single object or to a group of objects. Objects grouped together on a single DTID_NO collectively constitute a single "Line Item" of Property. Thus, a single DTID form, each of which bears a unique combination of DTID_NO, DRMO_RIC and RIC_SFX, could list any quantity of a particular type of Property. That quantity constitutes one Line Item. Note: For RCP Property, the Property Referral List will include a Requisition Number in place of a DTID_NO. The makeup of a Requisition Number is basically the same as for a DTID except that the DODAAC will always be "SC4401." In addition, the Requisition Number will not always be a unique number because partial shipments of the Property for a particular Line Item will have the same Requisition Number.

(D) National Stock Number [or] Local Stock Number. This 13 character code identifies the particular type of Property that comprises the Line Item and is constructed using the following two fields:

- (1) Federal Supply Classification (FSC).** This 4 digit numerical code identifies the general type of property (e.g., FSC 3411 is Boring Machines).
- (2) National Item Identification Number Local Stock Number (NIIN_LSN).** A 9 position field that contains either:
- (a) National Item Identification Number (NIIN).** The federally assigned numerical code that identifies an item of Property as meeting certain specifications. Items that are not perfectly identical, and/or were produced by different manufacturers, but which meet identical procurement specifications, may be identified by the same NIIN.

- or -

- (b) Local Stock Number (LSN):** Items for which the NIIN is unknown or unavailable (in many cases, items that were locally purchased or fabricated) have a text identifier assigned by the generator or at the DRMO in this 9 character field.

(E) Additional NSN Data (ADD_DATA). Add_Data is a 2 character field that indicates if the NSN is an end item as opposed to a component. Additionally, if a “#” is found in this field, it indicates that one or more of the DEMIL Code, Item Unit Price, Inventory Item Name or Item Unit of Issue were entered by an operator and not downloaded from the Federal Logistics Information System.

(F) Inventory Item Name (INV_ITM_NAME). This 29 character field contains the name officially assigned to the item (e.g., Computer, Digital).

(G) Item Unit of Issue (ITM_UI). This 2 character field describes how all quantities are counted (e.g., each, box, dozen, hundred count, gross, etc.).

(H) Quantity Available (QTY_AVAIL). A 9 position numeric field containing the quantity (measured in the unit of issue) that is referred for sale to Purchaser.

(I) Item Unit Price (ITM_UP). This fifteen (15) character numeric field provides the Acquisition Value of a single unit of issue.

(J) Acquisition Value Available. A numeric field containing the total Acquisition Value of the Line Item. It is calculated by multiplying the **Quantity Available (QTY_AVAIL)** by the **Item Unit Price (ITM_UP)**.

(K) Property Storage Location. This 11 character code provides the physical location of the Property as assigned by the accountable DRMO. It is constructed of the following two fields:

- (1) Site Location Code (SITE_LOC_CD).** This 2 character alphanumeric field identifies the storage site.
- (2) Storage Location Code (STG_LOC_CD).** This 9 character alphanumeric field identifies the actual storage location

within the site (e.g. C020303C0 refers to building C, section 02, aisle 03, location 03, 3rd shelf from the bottom).

(L) Bid Category. This one (1) character field contains the Bid Category (A, B, C, D or E) that corresponds to the FSC of the item. Tables IV-1a and IV-1b in Part IV above of this IFB list the Bid Category for each of the FSCs in the Product Pool.

(M) Bid Percentage. This numeric field contains the Contractor’s Bid Percentage for the Bid Category corresponding to the FSC of the item.

(N) Contractor’s Purchase Price. This numeric field is equal to the product of Bid Category times Bid Percentage. This amount will be reflected on the corresponding Invoice to Purchaser.

(O) Hazardous Material Code. This one (1) character field contains an “M” or a “W” if the corresponding item is deemed to be, or to be contaminated by, hazardous material or hazardous waste, respectively. The Property does not include any “M” or “W” items, so this field should always be blank.

(P) DEMIL Code. This one (1) character field contains “A,” “B” or “Q.”

Section 3. Documentation and References.

DRMS shall provide training, documentation, manuals and references as reasonably requested by Purchaser to allow Purchaser to determine the meaning of coded information.

Section 1. Payment Deposit.

Within ten (10) Days of the date of award, Contractor shall pay to DRMS the amount of four-hundred thousand dollars (\$400,000.00) (the "Pre-Payment"). The Pre-Payment must be made via guaranteed instrument (cashier's or certified check), wire transfer or electronic funds transfer (EFT). The Government shall hold Contractor's Bid Deposit and this Pre-Payment (collectively, the "Payment Deposit") until the completion of the Wind-Up and will use the Payment Deposit to offset unpaid billings or to offset any other claims by DRMS against Contractor or Purchaser. The Government shall return any available balance of the Payment Deposit, without interest thereon, to Contractor at the completion of the Wind-Up as provided in Article 21.

Section 2. Payment by Purchaser for Property.

(A) Invoices and Payments.

DRMS shall periodically submit to Purchaser in machine readable, comma delimited ASCII file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, a billing ("Invoice") for payment for the Property referred for sale to Purchaser since the last preceding Invoice. The Invoice shall be in the total amount of the Contractor's Purchase Price of the subject Property, determined by multiplying the Acquisition Value of each Line Item by the corresponding Bid Percentage for the applicable FSC, less any credits to which the Purchaser is entitled (the balance being the "Total Invoiced Amount").

(B) Amounts Payable to DRMS and to KGP; Timing of Payments.

Each Invoice shall identify (i) an amount (the "DRMS Invoiced Amount") equal to ninety-seven and seventy-five one-hundredths percent (97.75%) of the Total Invoiced Amount, and (ii) an amount (the "KGP Invoiced Amount") equal to two and twenty-five one-hundredths percent (2.25%) of the Total Invoiced Amount. Purchaser shall pay to DRMS and to KGP the full amounts of the DRMS Invoiced Amount and the KGP Invoiced Amount, respectively, on or before the date that is fifteen (15) Days after each Invoice is submitted to Purchaser.

(C) Failure to Make Timely Payments.

With respect to any particular Invoice, should Purchaser fail to pay to DRMS and to KGP the full amounts of the DRMS Invoiced Amount and the KGP Invoiced Amount, respectively, on or before the date that such payments are due, DRMS may, in its sole discretion, (i) apply that portion of the Payment Deposit that is necessary to pay the Total Invoiced Amount, in which event DRMS shall pay to KGP the subject KGP Invoiced Amount, and (ii) notify Purchaser that such failure constitutes a Material Breach that Purchaser may cure within ten (10) Days of service of notice thereof by paying to DRMS an amount equal to one-hundred twenty percent (120%) of the subject Total Invoiced Amount, which payment shall be applied by DRMS to replenish and increase the amount of the Payment Deposit.

(D) Payments.

Unless otherwise provided by notice, all payments to DRMS and to KGP shall be made and delivered pursuant to the following instructions, which instructions may be changed by written notice to Purchaser.

(1) Instructions for Payments to DRMS. DRMS prefers payment be made via EFT; however, payments may also be made via wire transfer, guaranteed instrument (certified or cashier's check) made payable to U.S. Treasury. EFT and wire transfer should be made to the following account:

Mellon Bank
043000261
Account # 9101019

Include in the addendum field of the EFT the following information:

DRMS #99-0001
Type of payment (i.e. Pre-payment, Invoice payment or other)

A separate EFT transaction must be processed for each type of payment.

DRMS-RP ATTN: Cashier
74 N. Washington Ave.
Battle Creek, MI 49017-3092

(2) Instructions for Payments to KGP.
By: Wire transfer
[KGP to provide details after award]

ARTICLE SIX. QUANTITY DELIVERABLE; DISCREPANCIES AND ANNUAL PRICING CORRECTION; SCRAP

Section 1. Sale by Reference Conditions.

Sale by Reference Condition D, Adjustment for Variation in Quantity or Weight Special Sealed Bid-Term Conditions (Standard Form 114C-2) is deleted, and Condition No. 12, Adjustment for Variation or Weight (Standard Form 114-C) is modified to authorize the Government to vary the quantity or weight delivered as follows.

Section 2. Discrepancies.

(A) With respect to each discrepancy noted by Purchaser in terms of any Line Item on the Property Referral List that is available for removal, but for which there is an underage or overage in the “Quantity Available [QTY_AVAIL],” or product misidentification as described by the “Inventory Item Name [INV_ITM_NAME]” or FSC, or mis-specification of the Acquisition Value (any such underage, overage, misidentification or mis-specification being a “Discrepancy”), Purchaser shall provide notice to DRMS thereof with documentation of such Discrepancy within sixty (60) Days of Delivery of the subject Property and while such Property can be made available for inspection by DRMS at either a Delivery Point or a storage facility maintained by Purchaser. Failure to provide notice of an alleged Discrepancy in accordance with the criteria set forth in this subparagraph shall preclude inclusion thereof in any reports described in subsequent provisions of this Section 2 or assertion of any claim based thereupon. Within a reasonable period of time after such notification, DRMS shall review the asserted Discrepancy and notify Purchaser of acceptance or rejection thereof in whole or in part. Purchaser shall maintain such documentation as part of Purchaser’s Records.

(B) Purchaser shall include with the initial Annual Report, with each Annual Report thereafter, and with the Closing Report, a compilation of all asserted Discrepancies during the period with respect to which such report is prepared, grouped by the DRMO or other location of the Property, which compilation includes a complete description of (i) each such Discrepancy accepted by DRMS in whole or in part and a calculation of the effect on the Contractor’s Purchase Price of the corresponding Line Item if its Acquisition Value were adjusted up or down accordingly (a “Pricing Correction”), and (ii) each such Discrepancy rejected by DRMS in whole or in part.

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(C) If the sum of the Pricing Corrections for the subject time period (the “Total Pricing Discrepancy”) exceeds the amount that is three percent (3%) of the total of the Contractor’s Purchase Prices billed by DRMS to Purchaser with respect to Property sold to Purchaser during such period (the “Pricing Discrepancy Benchmark”), the amount of Purchaser’s next payment of an Invoice shall be increased or decreased by the amount of such Total Pricing Discrepancy minus the Pricing Discrepancy Benchmark (the “Annual Pricing Correction”). If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such Annual Pricing Correction.

(D) If the Total Pricing Discrepancy for the subject time period is equal to or less than the Pricing Discrepancy Benchmark, the Annual Pricing Correction for the subject time period shall be zero.

(E) Purchaser may seek administrative or judicial relief pursuant to the procedures specified in Article 20 with respect to any asserted Discrepancy that is rejected in whole or in part by DRMS, provided, however, that no such action shall be commenced by Purchaser more than thirty (30) Days after submission to DRMS of the corresponding compilation of such Discrepancies required to be reported DRMS pursuant to the provisions of Section 2(B) above of this Article 6.

Section 3. Items with Excessive Acquisition Value.

Any Line Item with a reported Acquisition Value in excess of ten million dollars (\$10,000,000.00) shall be excluded from this contract at the sole option of Purchaser by notice served within thirty (30) Days of submission of the corresponding Property Referral List. Any such item shall not be made available for purchase or removal by Purchaser and Purchaser shall not be billed therefor.

Section 4. Items not Available for Removal.

(A) Purchaser shall be credited the amount of the Contractor’s Purchase Price for any Line Item that is listed on a Property Referral List but that is not made available by DRMS for removal. Purchaser shall notify DRMS within thirty (30) Days of Delivery of the Property on a particular Property Referral List of Purchaser’s determination that a Line Item thereon was unavailable for removal. DRMS shall review the underlying facts within a reasonable time after receipt of such notification and shall notify Purchaser of the resulting amount, if any, to be credited to Purchaser.

(B) The amount of any credit to which Purchaser is entitled pursuant to the provisions of this Section 4 shall be deducted from the amount of Purchaser’s next Invoice. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(C) Purchaser may seek administrative or judicial relief pursuant to the procedures specified in Article 20 with respect to any credit sought pursuant to the provisions of this Section 4 that is rejected by DRMS.

Section 5. Scrap.

(A) Downgrades Upon Receipt.

(1) Contractor acknowledges that DRMS reviews items that are designated as “Useable” by the generator when turned in to DRMS and, in the exercise of its sole discretion upon receipt of such items, DRMS downgrades certain items for sale as “Scrap” (each,

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a “Downgrade Upon Receipt,” and coded as such in the DRMS automated inventory control records). Throughout the Performance Period DRMS shall exercise its sole discretion to determine the policies and procedures governing Downgrade Upon Receipt decisions, and Purchaser shall not be entitled to affect such policies, procedures or decisions, provided, however, that such policies and procedures, and such decisions as implemented by receiving personnel at any particular DRMS facility, shall designate “Scrap” and “Useable” items and determine Downgrades Upon Receipt in good faith pursuant to the usage of such terms in the particular marketplace for a particular item.

(2) By written notice served upon the SCO, Purchaser may challenge the designation of a particular item of Property as “Useable” rather than “Scrap.” DRMS may respond to such challenge in the exercise of its sole discretion, including without limitation by referring the challenge to the DRMO Chief or to another DRMS official for determination of a recommendation to the SCO. If DRMS upholds the challenge, DRMS shall be responsible for removal of the item and DRMS shall issue a credit to Purchaser in the amount of the item’s Contractor’s Purchase Price on a succeeding Invoice.

(3) During the Performance Period the “Downgrade Rate” for Property in one or more particular FSCs shall be defined as the ratio determined for a particular period of time and, with respect to the Phase-In Period, for the particular Delivery Points at which Property is referred for sale to Purchaser during the period of actual referrals, of (i) the total Acquisition Value of the items of such Property coded for a Downgrade Upon Receipt

divided by **(ii)** the sum of **(x)** the total Acquisition Value of all items of Property in such FSCs referred for sale to Purchaser, plus **(y)** the total Acquisition Value of the items of such Property coded for a Downgrade Upon Receipt.

(4) No later than forty-five (45) Days before each of Purchaser's Annual Reports is due to be submitted to DRMS pursuant to the provisions of Section 5(D) of Article 8, DRMS shall report to Purchaser the Downgrade Rate calculated for the Property in each of the respective "Downgrade Rate Subcategories" identified in Schedule VI.6.5(A)(4) for the period to which the forthcoming Annual Report pertains.

(5) If the Downgrade Rate for a particular Downgrade Rate Subcategory for the subject period is less than the corresponding "Downgrade Norm" specified in Schedule VI.6.5(A)(4), Purchaser shall be credited on the next succeeding Invoice in the amount of **(i)** the excess of the Downgrade Norm over the Downgrade Rate for such Downgrade Rate Subcategory for the subject period, multiplied by **(ii)** the total Contractor's Purchase Price of all Property in such Downgrade Rate Subcategory that was referred for sale to Purchaser on Property Referral Lists submitted to Purchaser during the subject period. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(B) Upgrades.

(1) Contractor acknowledges that **(i)** DRMS reviews items that are designated as "Scrap" by the generator when turned in to DRMS and, in the exercise of its sole discretion upon receipt of such items, DRMS upgrades certain items to "Useable" (each, an "Upgrade Upon Receipt"), and **(ii)** from time to time in the exercise of its sole discretion DRMS reviews items received and accepted as "Scrap" and upgrades certain such items after receipt to "Useable" (each, a "Post-Receipt Upgrade"). Throughout the Performance Period DRMS shall exercise its sole discretion to determine the policies and

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procedures governing Upgrade Upon Receipt and Post-Receipt Upgrade decisions by DRMS receiving personnel, and Purchaser shall not be entitled to affect such policies or procedures, provided, however, that such policies and procedures, and such decisions as implemented by receiving personnel at any particular DRMS facility, shall designate "Scrap" and "Useable" items and determine Upgrades Upon Receipt and Post-Receipt Upgrades in good faith pursuant to the usage of such terms in the particular marketplace for a particular item.

(2) Purchaser may assign personnel from time to time in the exercise of its sole discretion to assist DRMS receiving personnel with Upgrade Upon Receipt decisions at any particular DRMO or DRMS Warehouse. With respect to any particular item that would qualify as "Property" after R/T/D review and that is designated as "Scrap" by the generator, Purchaser may request an Upgrade Upon Receipt or a Post-Receipt Upgrade. If DRMS approves the request in the exercise of its sole discretion, the item shall be submitted for R/T/D review, provided, however, that DRMS reserves the right to mutilate, destroy or otherwise dispose of any item based upon safety or health concerns.

(3) DRMS shall record each instance of an Upgrade Upon Receipt pertaining to items that, after R/T/D review, would qualify as "Property," in the format most practical in the circumstances, including without limitation a handwritten listing of the subject DTID_NOs, photocopies of the subject DTIDs, or by other convenient means (such records being the "Manual Upgrade Records"), and such Manual Upgrade Records shall distinguish between Upgrades Upon Receipt and Post-Receipt Upgrades initiated by DRMS and those required by Purchaser. In connection with the Delivery of the Property designated on a particular Property Referral List, DRMS shall provide to Purchaser the Manual Upgrade Records, if any, pertaining to such Property.

(4) All Property that is subject to an Upgrade Upon Receipt or a Post-Receipt Upgrade shall be referred for sale to Purchaser following R/T/D review, provided, however, that Purchaser shall be credited the full amount of the Contractor's Purchase Price for any item for which DRMS initiated either an Upgrade Upon Receipt or a Post-Receipt Upgrade and that Purchaser abandons as provided in Article 3. The amount of such credit shall be deducted from the amount of Purchaser's next Invoice issued following such abandonment. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

ARTICLE SEVEN. OPERATIONS

Section 1. Compliance with Applicable Law and Regulations.

(A) Compliance with Applicable Law.

Contractor, Purchaser and its subcontractors shall comply with the requirements of all applicable federal, state, and local laws, regulations, ordinances, directives and instructions connected with the performance of this contract, including without limitation such requirements pertaining to income and payroll taxes, environmental matters and occupational safety.

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(B) Licenses and Permits.

Purchaser shall obtain any necessary licenses and permits, and comply with all federal, state, and local laws and regulations in connection with the prosecution of the work. This responsibility requirement will be a matter of inquiry during the SCO's pre-award evaluation of the bidder's capability to perform the contract satisfactorily. It will also be a continuing matter of inquiry by the SCO during the performance of the contract.

(C) Responsibility for Keys.

Issuance of "Keys" (as such term is defined below) will be at the Government's sole discretion. Contractor shall establish and implement procedures that will preclude the loss, misplacement, or unauthorized use of all "Keys" issued to the Contractor or Purchaser by the Government for access to dedicated warehouse space. The term "Keys" shall be understood to include not only physical devices for opening or operating a locked item or space but also other types of individual authenticators such as key cards and passwords. Contractor will be responsible for any costs incurred from the loss, misplacement or unauthorized use of Keys. These costs will include but will not be limited to the costs of changing an individual lock and key, and may also include an entire system of locks and keys in the Command Security Office complex.

Section 2. Duties of Care and Loyalty.

(A) Duty of Care.

Neither Contractor nor Purchaser shall cause or permit any action or omission in the course of performing the contract that damages Purchaser and constitutes gross negligence, recklessness or intentional harm.

(B) Duty of Loyalty.

Contractor and Purchaser shall carry out their responsibilities under the contract with honesty, good faith and fairness toward DRMS.

Section 3. Prohibited Activities.

Purchaser shall not undertake the following activities without written permission from the SCO, which permission may be granted or withheld by DRMS in the exercise of its sole discretion:

(A) Enter into a partnership, joint venture or other arrangement the purpose or effect of which is to engage indirectly in a transaction that would be prohibited by the provisions of this contract if undertaken by Purchaser directly; or

(B) Acquire any asset not related to DRMS or enter into any transaction not related to DRMS; or

(C) Engage in any Affiliate Transaction, except for the Affiliate Transactions identified at Schedule VI.7.3(C), which are permissible on the terms and conditions set forth in such Schedule; or

(D) Enter into any transaction **(i)** other than on an arms-length basis or **(ii)** with pricing or other terms less favorable to Purchaser than otherwise reasonably obtainable; or

(E) Give any representations or warranties to a re-sale buyer concerning the condition or quality of an item of Property or re-sell any Property without a written affirmative disclaimer of any implied warranties of merchantability or fitness for a particular purpose, provided, however, that Purchaser may offer such representation or warranty as to a particular

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item or type of Property if Purchaser notifies the SCO of its intent to do so and the SCO does not object thereto within thirty (30) Days of such notice, which objection or lack of objection shall be determined by DRMS in the exercise of its sole discretion; or

(F) Enter into any transaction with respect to any item of Property under terms that could obligate Purchaser to reacquire such Property after the Performance Period; or

(G) Initiate, renew or extend any rental or lease of Property for a term that begins or ends on a date beyond the Performance Period; or

(H) Enter into contracts or other arrangements that would assign all or substantially all responsibility for and control of performance of the contract to another party or parties, without the prior written approval of DRMS which will consider such request in accordance with the Assignment of Claims Act of 1940, as amended, 41 U.S.C. sec. 15, and the Government's best interests. In the event of any improper assignment without the written approval of DRMS, this contract shall be voidable at the option of the Government in the exercise of its sole discretion; or

(I) File a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code (or corresponding provisions of future law) or any other federal or state insolvency law; file an answer consenting to or acquiescing in any such petition; make any assignment for the benefit of Purchaser's creditors; or admit in writing Purchaser's inability to pay its debts as they mature, without the prior written consent of DRMS.

Section 4. Classified and Other Material.

Any classified material, demilitarization required or hazardous property found while in the possession of Contractor, Purchaser or any subcontractor(s) in or among the Property must be immediately returned to government control as directed by the SCO at government expense. Purchaser shall be credited for such expense and for the Contractor's Purchase Price of any such item on an Invoice submitted by the Government in the ordinary course of administering this contract within a reasonable time after the return of such Property. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

Section 5. Munitions List Items and Commerce Control List Items.

(A) Acknowledgment of Export Restrictions.

Contractor and Purchaser acknowledge that many of the items in the Product Pool are subject to trade security controls (i.e., export restrictions), including both **(i)** Commerce Control List Items ("CCLI") that are designated by the Department of Commerce pursuant to the provisions of the Export Administration Act of 1979, Executive Order 12924 and regulations promulgated thereunder and that have a DEMIL Code of "Q," and **(ii)** Munitions List Items ("MLI") that are designated by the Department of State pursuant to the provisions of the Arms Export Control Act and implementing regulations and that have a DEMIL Code of "B."

(B) Purchaser's TSC Clearance and End Use Certificate.

Prior to award of this sale contract, **(i)** Purchaser shall obtain clearance from the DLA Trade Security Controls enforcement office as a buyer of DEMIL "B" and/or "Q" items, and **(ii)** Purchaser shall submit to the SCO a properly completed End-Use Certificate (or "EUC," in the form of either DRMS Form 2 or DLA Form 1822, copies of which forms are attached as Attachment VI.5.B) that is approved in writing by the SCO. Such clearance and EUC shall be

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deemed effective for five (5) years unless there are material changes in the information on the EUC.

(C) Re-Sale Procedures.

For all MLI and CCLI (i.e., DEMIL “B” and “Q” Property), the Purchaser shall promulgate in all re-sale advertisements and catalogs, as well as in the terms and conditions of sale, a notice to prospective buyers that the terms may require export permits. The wording of such notice shall be approved in advance by DRMS in the exercise of its sole discretion. Before releasing a particular item of DEMIL “B” or “Q” Property to a prospective re-sale buyer, (i) Purchaser shall obtain a completed EUC from such buyer for each lot (or group of lots at a single re-sale event) of such Property and furnish a copy thereof to DRMS, and (ii) Purchaser shall confirm with DRMS through the SCO that such buyer is cleared for the purchase of DEMIL “B” and “Q” items.

(E) Compliance With EUC Requirements.

Subject to such additional or different requirements pertaining to DEMIL “B” and “Q” Property that DRMS may prescribe in its sole discretion, Purchaser shall comply with all of the provisions set forth on the particular form of the EUC that Purchaser submits to DRMS through the SCO. If Purchaser submits a DRMS Form 2, and if so indicated on a particular Property Referral List with respect to a particular item or items of DEMIL “B” or “Q” Property, (i) Purchaser shall notify DRMS through the SCO of the proposed re-sale of such item, (ii) Purchaser shall update Purchaser’s EUC to identify the proposed re-sale buyer, and (iii) Purchaser shall obtain written approval from the SCO before releasing such item to the proposed re-sale buyer.

(F) Seagoing Containers.

Whenever a seagoing container is used by a re-sale buyer to remove Property, Purchaser shall report to DRMS the container number and, if known, the destination port.

(G) Compliance With New Trade Security Control Requirements

Purchaser shall comply with all trade security control procedures, requirements and restrictions that DRMS prescribes in its sole discretion. All costs of such compliance shall be deemed Direct Costs.

Section 6. Employee Compensation

(A) Base Compensation.

Compensation of Purchaser’s employees (including fringe benefits) that is determined on a salaried or hourly basis, and paid in an amount determined without regard for the performance of the employee, or the profitability or other performance of Purchaser or of Contractor (“Base Compensation”), shall be deemed a Direct Cost, provided, however, that no employee’s Base Compensation shall be plainly excessive in comparison to the compensation of Contractor’s employees when evaluated with regard for Purchaser’s circumstances and such employee’s qualifications and responsibilities.

(B) Bonuses.

Compensation of Purchaser’s employees other than Base Compensation, including without limitation, the total amount of any bonuses paid within any calendar year to a particular employee in excess of one-third (33 1/3%) of such employee’s total compensation for such year, is a Contractor Indirect Cost and shall be borne solely by Contractor.

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Section 7. Employee Expenses and Purchaser’s Supplies, Furniture and Equipment.

(A) Employee Expenses.

If any employee or former employee of Purchaser is hired by an Affiliated Party during the term of such employee’s employment with Purchaser or within twelve (12) months following the termination of such employment, Contractor will pay to Purchaser a reasonable pro rata share of such employee’s training costs, relocation expenses, and employment agency fees to the extent paid, reimbursed, or otherwise incurred by Purchaser in connection with such employee, provided, however, that no such reimbursement will be required if such employee had been employed by Purchaser continuously for eighteen (18) months or longer after the date of award.

(B) Supplies, Furniture and Equipment.

Purchaser shall not purchase supplies, furniture or equipment except to the extent that such supplies, furniture or equipment will be used solely by Purchaser, and upon the sale of such furniture or equipment, the proceeds shall be the property of Purchaser. Purchaser shall not sell such supplies, furniture or equipment to an Affiliated Party. During the Wind-Up Purchaser shall sell any remaining supplies, furniture or equipment to a third party or parties.

Sections 8. RCP Batch Lots.

Purchaser may in the exercise of its sole discretion combine Line Items of RCP Property with Acquisition Values less than One-Thousand Dollars (\$1,000.00) each into “Batch Lots” for processing and re-sale. Purchaser shall assign a unique identifying number to each Batch Lot (the “Batch Lot Number”) and shall maintain within the Records the total Acquisition Value associated with each Batch Lot Number in addition to the other item-specific re-sale information required by the provisions of this IFB, provided, however, that Purchaser shall not be required to record the particular DTID Numbers associated with each Batch Lot Number.

Section 9. Vehicles Requiring Partial Mutilation.

DLA requires that certain vehicles identified as Gamma Goats, GOER Vehicles, HMMWVs, R-9 Refuelers, Crash Fire Rescue Trucks and M151 Vehicles be partially mutilated before removal. These items accordingly are not identified by DRMS as “Useable,” and Purchaser is not obligated to purchase such items. In certain respects as specified in applicable regulations, however, parts from such vehicles may permissibly be removed from the vehicle prior to mutilation and re-sold. DRMS may from time to time in the exercise of its sole discretion notify Purchaser in writing of the availability of certain such vehicles. Within ten (10) Business Days of such notice, Purchaser may in the exercise of its sole discretion notify DRMS that Purchaser elects to purchase such items at a price determined from Purchaser’s Bid Percentage for CV-2 Bid Category “E,” DEMIL B/Q items. Purchaser and DRMS shall cooperate as necessary in the circumstances to effect Delivery of such items, and Purchaser shall remove the subject parts reasonably promptly after Delivery. Purchaser shall transport the material comprising the remainder of each such item to the appropriate facility for mutilation at the DRMO if available, and the cost of transport shall be a Direct Cost. If there is no such facility at the subject DRMO, DRMS shall remove such material at government expense.

Section 10. Airworthiness Certification.

Purchaser is responsible to make arrangements with the Federal Aviation Administration (“FAA”) for all inspections needed to obtain airworthiness certification. The FAA provides

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guidance and instructions to establish eligibility for civilian airworthiness certification for surplus military aircraft and aircraft assembled from spare and surplus parts. Before an Airworthiness Certificate is issued, the assembled aircraft must be in conformity with the data forming the basis for that FAA type-certificate. The responsibility to satisfy FAA requirements lies entirely with Purchaser and subsequent re-sale buyers.

Section 11. Commerce Control List Items (CCLI).

Purchaser warrants and covenants that none of the CCLI items identified in this Invitation for Bids and listed on its sale contract will be directly or indirectly used or disposed of for military use or exported unless a full disclosure of the origin of the property is made by Purchaser. The disclosure must reference this Invitation for Bids and sale contract number, and be submitted to:

Office of Export Administration
P.O. Box 273
Washington, DC 20044

Purchaser understands and agrees that the Office of Export Administration may require Purchaser to mutilate the Property to the extent necessary to preclude its use for its originally intended purpose, and/or require Purchaser to have or obtain an export license before the Property may be exported outside of the United States, Puerto Rico, American Samoa, Guam the Trust Territory of the Pacific Islands or the Virgin Islands.

Section 12. Munitions And Commerce Control List Item (MLI/CCLI) Compliance.

a. The use, disposition, export and reexport of MLI/CCLI property is subject to all applicable United States laws and regulations, including the Export Administration Control Act of 1979 (50 U.S.C. Appx. 2401, et seq.); Arms Export Control Act (22 U.S.C. 2651, et seq.); International Traffic in Arms Regulation (22 C.F.R. 121); and Export Administration Regulation (15 C.F.R. 368, et seq.), which in part prohibit:

(1) Making false statements and concealment of any material information regarding the use, disposition, export or reexport of the property;

(2) Any use, disposition, export or reexport of the property not authorized in accordance with the provisions of this contract.

b. Any false information provided and/or concealment of any material information regarding the use, disposition, or export of this property may constitute a violation of:

(1) The provisions of 18 U.S.C. 1001, which provides a maximum penalty of five years imprisonment and/or a maximum fine of \$10,000;

(2) The provisions of 22 U.S.C. 22778, which provides a maximum penalty of ten years imprisonment and/or a maximum fine of \$1,000,000; or,

(3) The provisions of 50 U.S.C. Appx. 2410, which provides a maximum penalty of ten years imprisonment and/or a maximum fine of five times the value of the property exported or \$1,000,000, whichever is greater, and which also provides for administrative sanctions, including civil penalties of up to \$10,000, and the revocation of authority to export goods from the United States.

Section 13. Y2K Calendar Sensitive (Year 2000) Equipment.

Purchaser is cautioned that Property offered on this sale may be affected by the Year 2000 (Y2K) technology problem, also known as the millennium bug. The Government makes no warranty, either express or implied, that any of the items offered on this sale will not be adversely affected by the Y2K problem. The condition of items, as expressed in item descriptive detail, is based purely on visual inspection which is not adequate to determine Year 2000 compatibility. The Government assumes no liability for damages to property of Purchaser, its employees or to any other person arising from or affiliated with the purchase, use or disposition of this material. Purchaser shall hold the Government harmless from any and all such demands, suits, actions, or claims arising from or otherwise relating to the purchase and use of this material

Section 14. Flight Safety and Critical Aircraft Parts (FSCAP).

(A) The military services are responsible to ensure all available historical records/documentation are included when repairable Flight Safety Critical Aircraft Parts ("FSCAP") are turned in to DRMOs, Unused FSCAP, in original, undamaged packaging must be marked with NSN, Contract Number, CAGE Code(s) and part number. FSCAP items lacking appropriate records/documentation, or which are condemned, shall be mutilated by DRMS. Any FSCAP item that lacks any required packaging, records or documentation is not included within this sale and must be immediately returned to government control as directed by the SCO at government expense. Purchaser shall be credited for such expense and for the Contractor's Purchase Price of any such item on an Invoice submitted by the Government in the ordinary course of administering this contract within a reasonable time after the return of such Property. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(B) When an FSCAP item is transferred to DRMS, block 27 of the DTID will cite the appropriate Criticality Code. The "Remarks" section of the DTID shall contain the letters "FSCAP."

(C) Serviceable or repairable FSCAP may undergo R/T/D, subject to DEMIL requirements, provided the historical records and documentation are furnished. Purchaser must notify the re-sale buyer that the parts:

(1) Cannot be used on commercial aircraft in absence of specific FAA approval (usually granted by an FAA Repair Shop),
and

(2) Cannot be sold back to the DoD or to foreign governments/military without the appropriate records/documentation.

(D) DRMS makes no representation as to a part's conformance with FAA requirements. As a condition of transfer, donation, or sale of a FSCAP, and prior to installing the parts, the receiving persons or organizations must subject the parts to inspection, repair, and/or overhaul by a competent manufacturer or other entity certified by the FAA to perform such inspection and repair. The aircraft parts may not meet FAA design standards, and/or may have been operated outside the limitations required under the Federal Aviation Regulations. Inspections and FAA approvals will be needed to determine an

**ARTICLE EIGHT. PURCHASER'S RECORDS; INSPECTION AND AUDIT BY
GOVERNMENT AND INDEPENDENT AUDITOR; ACCOUNTING PRINCIPLES AND
REQUIRED REPORTS TO GOVERNMENT**

Section 1. Contractor Records Retention.

Contractor shall make available Purchaser's books, records, documents, and other supporting evidence, including without limitation all items required by the provisions of Article 9 (the "Records"), to satisfy contract administration and audit requirements of the Department of Defense and the Comptroller General for six (6) years after the Wind-Up is concluded, or for such period of time as Contractor, for its own purposes, retains its books, records, documents, and other supporting evidence, whichever is longer.

Section 2. Inspection of Records and Workplace by Government.

To ensure that the Government has a means to verify accuracy of the Records and inventory, the Government has the right to audit the Records and inventory the Property and to review Purchaser's operations with reasonable advance notice. The audit may consist of a complete or random sample examination. Purchaser must ensure that, prior to re-sale, the Property is readily identifiable as formerly Government property. Inspections may be conducted by DLA Trade Security Control personnel with no notice.

Section 3. Records Maintenance.

Contractor shall maintain the Records accurately and in a manner that will allow clear and accurate auditing. The Records pertaining to inventory shall contain, at a minimum, the National Stock Number or Local Stock Number, Disposal Turn-In Document Number (or Requisition Number for RCP Property), quantity, date removed from the Delivery Point, date sold, sale price, date Purchaser received payment from the re-sale buyer, name and address of re-sale buyer, and storage location prior to re-sale. A separate inventory list must be maintained for each of Purchaser's storage facilities. The Government reserves the right to request and inspect these documents as it deems necessary with reasonable notice. In the event that Purchaser fails to maintain or provide any of these documents to the Government, the Government may in its sole discretion cause Termination.

Section 4. Contracts with Third Parties.

Purchaser shall ensure that all contracts entered into by Purchaser shall expire or shall be terminable by Purchaser within the Performance Period. If Purchaser reasonably anticipates that the annualized cost of payments by Purchaser to a particular third party will exceed one hundred thousand dollars (\$100,000.00), Purchaser shall enter into a written contract with such third party that includes a provision requiring that, during the life of such contract and for a period of three (3) years following final payment under such contract, DRMS or its designated representative shall have access to, and the right to examine and copy, any directly pertinent books, documents, papers, records or other recorded information, and to examine any directly pertinent property within such third party's possession or control, involving transactions related to the contract.

Section 5. Purchaser's Books of Account; Financial Reports.

Purchaser shall maintain true and correct books and records of account. The books and records of account shall be maintained on an accrual basis in accordance with Generally Accepted Accounting Principles ("GAAP"), and reports by Purchaser to DRMS and KGP ("Purchaser's Reports") shall consist of the following:

(A) Transition Report.

Within one hundred eighty (180) Days of the date of award, or on such date thereafter as DRMS specifies in the exercise of its sole discretion, Purchaser shall provide to DRMS in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, a report (the "Transition Report") that specifies Purchaser's operating plan for performing the contract through the balance of the Performance Period. The Transition Report shall address the following topics:

- (1) Storage facilities in place and projected.
- (2) Shipping arrangements in place and projected.
- (3) Logistical or administrative difficulties encountered to date, and proposed or effected resolution thereof.
- (4) Marketing opportunities and problems encountered to date, proposed resolution of the problems, and plans for adding value to the Property.
- (5) Any other logistical, administrative, marketing or other issues that Purchaser determines should be brought to the attention of DRMS.

(B) Monthly Report.

By the fifteenth (15th) Day of each calendar month, Purchaser shall provide to DRMS in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, both financial statements (including a statement of cash flows) prepared according to GAAP and the following information (collectively, the "Monthly Report") with respect to the preceding calendar month, provided, however, that the initial Monthly Report shall pertain to the period from the date of award through the last Day of the calendar month that includes the date of award:

- (1) An "Inventory Status Report" that includes the following for each item of Property:
 - a. Cumulative costs of capital improvements made to each item of Property or attributed by proration only when necessary that (i) was removed from inventory by sale or otherwise during the month or (ii) remains in inventory at the close of the month

b. Amounts and date(s) of all revenues received (or attributed by proration only when necessary) with respect to each item of Property sold during the month and identification of the re-sale buyer of each such item

c. Inventory on hand at the close of the month

- (2) Seller Indirect Costs
- (3) ECLR statement
- (4) Income statement
- (5) Detail and summary of:

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- a. Distributions
- b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
- c. Purchase Advances and Purchase Transfers

(6) Status report of progress in correcting any deficiencies identified by a DRMS inspection, regulatory inspection, audit or Compliance Review or Further Review, which must include Purchaser's plan to comply with discrepancies noted or questions asked in writing by the SCO or Independent Auditor.

(C) Quarterly Report.

Purchaser shall provide to DRMS and to KGP the following quarterly financial information (the "Quarterly Report"), in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, and prepared in accordance with GAAP, within forty-five (45) Days of the close of each calendar quarter with respect to such calendar quarter, provided, however, that the initial Quarterly Report shall pertain to the period from the date of award through the last Day of the calendar quarter that includes the date of award:

- (1) Income statement
- (2) Balance sheet
- (3) Statement of cashflows
- (4) Notes to financial statements
- (5) Inventory status and disposition report
- (6) Detail and summary of:
 - a. Distributions
 - b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
 - c. Purchase Advances and Purchase Transfers
- (7) ECLR statement

(D) Annual Report.

Purchaser shall provide to DRMS and to KGP the following annual financial information (the "Annual Report"), in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, prepared in accordance with GAAP and audited by an independent national accounting firm (the "Independent Auditor") pursuant to American Institute of Certified Public Accountants ("AICPA") standards, within one hundred twenty (120) Days of the close of each twelve (12) calendar month period with respect to such period, provided, however, that the initial Annual Report shall pertain to the period from the date of award through 30 September 1998:

- (1) Income statement
- (2) Balance sheet
- (3) Statement of cashflows
- (4) Notes to financial statements
- (5) Inventory status and disposition report
- (6) Detail and summary of;
 - a. Distributions

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- b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
- c. Purchase Advances and Purchase Transfers

- (7) ECLR statement
- (8) The Independent Auditor's (i) Management Letter and (ii) list of Audit Adjustments whether posted to the Records or not
- (9) As soon as available, but no later than the last day permitted by law, Federal tax returns and all supporting schedules

(E) Closing Report.

(1) Purchaser shall provide to DRMS and to KGP the following financial information (the "Closing Report") pursuant to the provisions of Section 4 of Article 21, in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, prepared in accordance with GAAP and audited by the Independent Auditor pursuant to AICPA standards, with respect to the period since the then most recently filed Annual Report:

- a. Income statement
- b. Balance sheet
- c. Statement of cashflows

- d. Notes to financial statements
- e. Inventory status and disposition report
- f. Detail and summary of:
 - (i) Distributions
 - (ii) Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
 - (iii) Purchase Advances and Purchase Transfers
- g. ECLR statement
- h. The Independent Auditor's (i) Management Letter and (ii) list of Audit Adjustments whether posted to the Records or not
- i. As soon as available, but no later than the last day permitted by law, closing Federal tax returns and all supporting schedules

(2) Within sixty (60) Days of submission of the Closing Report or, as the case may be, within sixty (60) Days of the re-submission of a Closing Report initially disapproved by DRMS, DRMS shall either serve notice of its disapproval of the Closing Report and state the reasons therefor, or serve notice of its approval. The Closing Report shall not be deemed final until approved by DRMS, which approval shall not be unreasonably withheld.

(F) Reporting Schedule.

Purchaser shall submit Monthly, Quarterly and Annual Reports in accordance with the provisions of this Section 5 to DRMS and to KGP with respect to each calendar month, each calendar quarter and each twelve (12) month period ending 30 September, respectively, from the date of award until DRMS approval of the Closing Report.

ARTICLE NINE. DIRECT COSTS

Section 1. Definitions.

(A) Direct Costs.

Except as otherwise provided herein, "Direct Costs" are all costs other than (i) amounts paid to DRMS and KGP for the purchase of Property, (ii) Seller Indirect Costs and (iii) compensation and transportation expenses of Purchaser's Chief Executive Officer, that are actually incurred by Purchaser for the sole purpose of performing this contract, including without limitation costs incurred for the management, storage, marketing, preservation, improvement, transportation and disposition of the Property (including all costs commonly termed "overhead costs") and either (x) paid to any Person that is not an Affiliated Party or (y) paid to an Affiliated Party and constituting one of the "Permitted Affiliate Transactions" identified at Schedule VI.7.3(C).

(B) Seller Indirect Costs.

"Seller Indirect Costs" are (i) subject to the provisions and limitations of Section 4(F) of Article 3, all costs that are actually incurred by Purchaser for the packing, loading and transport of Property referred for sale to Purchaser at a Restricted Access Facility, Special Situation Location or DLA Depot and either (x) paid to any Person that is not an Affiliated Party or (y) paid to an Affiliated Party and constituting one of the "Permitted Affiliate Transactions" identified at Schedule VI.7.3(C), or (ii) the actual and minimum reasonable costs incurred by Purchaser to comply with

(C) Contractor Indirect Costs.

"Contractor Indirect Costs" are all costs that are neither Direct Costs nor Seller Indirect Costs, and there shall be no amounts paid or payable by Purchaser therefor.

Section 2. Documentation and Payment of Direct Costs and Seller Indirect Costs.

(A) Disbursements.

Purchaser shall make all disbursements from the Operating Account or a Transfer Account. Disbursements for Direct Costs and Seller Indirect Costs shall be made pursuant to the provisions of Article 13; disbursements for Distributions and other adjustments shall be made pursuant to the provisions of Article 16; disbursements for repayment of Working Capital Advances shall be made pursuant to the provisions of Article 13; and Purchase Transfers shall be made pursuant to the provisions of Article 14.

(B) Supporting Documentation.

Subject to subsection (C) of this Article 9, each disbursement for a Direct Cost and a Seller Indirect Cost shall be supported in the Records by bona fide documentation (including, if appropriate, records in an electronic or magnetic medium) that adequately demonstrates that each such disbursement is in the proper amount for goods or services actually provided in advance of such disbursement if the disbursement is to an Affiliated Party or, if the disbursement is to a third party that is not an Affiliated Party, for goods or services actually provided or to be provided, or costs actually incurred or to be incurred. Purchaser shall place such documentation in the Records in advance of, or contemporaneously with, each such disbursement.

(C) Documentation Requirements.

Except in the case of a disbursement in the amount of Fifty Dollars (\$50) or less, the supporting documentation required under this Article 9 shall include, at a minimum, a written invoice or comparable document from the provider that (i) identifies the payee and itemizes each

particular invoiced product or service and the provider thereof, if different from the payee; and (ii) states the pricing and relevant terms as to each such product or service. Although the foregoing bona fide documentation shall as a matter of general principle be required for all disbursements, where the amount at issue is less than One Thousand Dollars (\$1,000) and where the documentation is missing or was inadvertently omitted, Purchaser may, in lieu of such documentation, provide a certificate in the Records executed by a Key Person that: (x) identifies the payee and itemizes each particular invoiced product or service and the provider thereof, if different from the payee, and (y) states the pricing and relevant terms as to each such product or service.

(D) Payment.

Upon placing the documentation and/or certificate required by this Article 9 in the Records, Purchaser shall pay the proper amount of each Direct Cost and Seller Indirect Cost

(E) Written Certification to DRMS.

Within fifteen (15) Days after the end of each calendar month that is in whole or in part within the Performance Period or the Wind-Up, Purchaser shall provide written certification to DRMS, in the form specified at Attachment VI.9.2(E) and executed by a Key Person, that all disbursements have complied with the provisions of this contract.

(F) Contractor Indirect Costs.

Contractor shall pay from its own funds before imposition of fine or penalty amounts due and payable for Contractor Indirect Costs. Contractor shall have no right of reimbursement for, and shall not use the Operating Account or any Transfer Account for, the payment of costs within the scope of this Section 2(F).

ARTICLE TEN. CONFLICTS OF INTEREST

Section 1. Restriction on Participation.

Once Property under this contract is re-sold by Purchaser, neither Purchaser nor an Affiliated Party shall purchase such items for a period of one year after the completion of the Wind-Up. All re-sales of Property shall be bona fide, arms-length transactions intended to provide both the Government and Purchaser maximum Net Proceeds. Purchaser may not re-sell Property directly or indirectly to an Affiliated Party. Purchaser shall not sell, consign, let, rent, lend or donate Property on terms that directly or indirectly provide any benefit to an Affiliated Party.

Section 2. Benefits to Contractor and Affiliated Parties.

Contractor shall assure that neither Contractor nor any Affiliated Party obtains goods, assets, tangible or intangible property or services from third-party vendors to Purchaser at prices or on terms more favorable than those that would otherwise be available to Contractor or the Affiliated Party absent the relationship between Purchaser and such third-party vendors. The foregoing requirement shall not apply to benefits from volume purchasing of goods, assets, tangible or intangible property or services by Contractor, Affiliated Parties and Purchaser where such volume purchasing does not benefit one purchasing party over another.

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ARTICLE ELEVEN. FIDELITY BOND REQUIREMENTS; INSURANCE

Section 1. Modification of Special Circumstance Conditions.

Sale by Reference (Attachment VI) Part 5: Additional Special Circumstance Conditions (DRMS Form 86, Oct 93), Article D, Liability and Insurance, paragraphs (a)(2) and (a)(3,) are modified as follows:

(2) Bodily Injury Insurance in an amount of not less than two hundred fifty thousand dollars (\$250,000.00) any one individual and one million dollars (\$1,000,000) any one accident or occurrence.

(3) Property Damage Liability Insurance in the amount of two hundred fifty thousand dollars (\$250,000.00) (which shall include any and all property whether or not in the care, custody or control of Purchaser). The annual coverage shall be not less than one million dollars (\$1,000,000).

Section 2. Further Modifications.

Sale by Reference Part 5, Article D, paragraph (a) is also amended as follows:

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(4) "All-Risk" coverage for fire and other property perils for all property owned by Purchaser with aggregate coverage of five million dollars (\$5,000,000.00).

(5) Umbrella liability coverage up to two million dollars (\$2,000,000.00).

(6) Fidelity Blanket Bond. Purchaser shall obtain, and maintain at all times until the completion of the Wind-Up, fidelity or blanket bond coverage in the amount of at least five million dollars (\$5,000,000.00) (the "Fidelity Bond"). Purchaser shall obtain and maintain such coverage with a responsible surety company with respect to all of Purchaser's employees, officers and directors to protect Purchaser against losses, including, without limitation, those arising from theft, embezzlement, fraud, or misplacement of funds, money, or documents. The issuer, policy terms and forms and amounts of coverage, including applicable deductibles, shall be satisfactory to DRMS, and the policy shall include a provision that the issuer shall notify DRMS in writing within five (5) Business Days of the cancellation or termination of any such coverage or of any modification of such coverage. Purchaser shall notify DRMS in writing within five (5) Business Days after filing a claim under such coverage.

(7) Other Insurance. Purchaser shall obtain, and maintain at all times until the completion of the Wind-Up, such comprehensive general liability, automobile liability, umbrella liability, worker's compensation and other insurance coverage as may be required by law. At its option, Purchaser may obtain and maintain such additional insurance, including directors and officers coverage and errors and omissions coverage, as Purchaser deems appropriate.

(8) Costs of Required and Other Coverage. Purchaser shall pay from the Operating Account pursuant to the provisions of Article 13 all premiums and deductibles incurred for all insurance coverage (which shall be deemed to be Direct Costs) except directors and officers coverage and errors and omissions coverage, and such disbursements shall be treated as Direct Costs. Premiums and deductibles for directors and officers coverage and errors and omissions coverage shall be considered an Indirect Cost and such insurance shall be obtained and maintained at Contractor's sole cost and expense.

(9) Evidence of Insurance, Within thirty (30) Days of the date of award, and annually thereafter, Purchaser shall provide to DRMS copies of policies, certificates of insurance or other proof evidencing the coverages required.

(10) Purchaser must obtain the minimum coverages specified herein unless DRMS approves a variance from such minimum coverages, in the event that a specified coverage or limit is or in the future becomes commercially impractical, such approval shall not be unreasonably withheld.

ARTICLE TWELVE. SOFTWARE AND SYSTEMS

Section 1. Identification of Systems and Software Developed with Contractor Funds.

(A) All accounting or reporting systems (other than hardware and other equipment) or software (and all related User Documentation relating to such systems and software) owned by Contractor, or otherwise obtained or developed by Contractor solely at Contractor's expense, excluding Third-Party Software, that Contractor or Purchaser uses in the performance of this Contract (collectively, "Contractor Systems and Software") shall be the sole property of Contractor until completion of the Wind-Up and thereafter. Schedule VI.12.1(A)

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identifies all Contractor Systems and Software that Contractor anticipates being used in the performance of this contract. From the date of award until completion of the Wind-Up, Contractor or Purchaser shall update Schedule VI.12.1(A) to the extent necessary to reflect the use of Contractor Systems and Software accurately and shall quarterly inform DRMS in writing of any changes to Schedule VI.12.1(A).

(B) Contractor may use, license, sublicense, assign, transfer or otherwise market Contractor Systems and Software to any other Person (including without limitation to any Affiliated Party) without DRMS's consent. Such use or marketing of Contractor Systems and Software shall be made upon such terms and conditions as Contractor may determine in its sole discretion and without compensation to Purchaser or to DRMS, provided, however, that such terms and conditions shall not prejudice DRMS's rights to use Contractor Systems and Software as set forth in Section 2 below.

Section 2, License in Contractor Systems and Software.

(A) DRMS shall have a non-exclusive, irrevocable and unconditional license, until the completion of the Wind-Up and for a period of three (3) years thereafter, and without additional cost to DRMS (except as otherwise provided herein), and a right to have delivered to it for DRMS and its designated representatives to use, solely on DRMS's own behalf in managing any "Remaining Assets" (as such term is defined in Article 21 below) and in reviewing Contractor's and Purchaser's performance of their obligations under this contract, any and all Contractor Systems and Software used in the performance of Contractor's and Purchaser's services under this contract; provided, however, that such delivery shall be only in the format and structure that is used by Contractor and/or Purchaser in performing their services under this contract.

(B) Contractor makes no representations, warranties or indemnities with respect to such Contractor Systems and Software, provided, however, that Contractor will use its best efforts to assure that Purchaser's computer data retention and transfer procedures maintain the integrity, reliability and security of the original data. Contractor shall be responsible for training or for conversion or installation of such Contractor Systems and Software to Purchaser's systems or equipment, and shall cause such training, conversion or installation to be performed from time to time as may be reasonably necessary for the effective and efficient operation of Purchaser's business. To the extent that such services are performed by an Affiliated Party, the costs thereof shall be Indirect Costs and borne solely by Contractor. Contractor shall not be responsible for training or for conversion or installation of such Contractor Systems and Software to DRMS's systems or equipment or for any costs or expenses thereof.

(C) Contractor shall not be responsible for maintaining or enhancing Contractor Systems and Software, either before or after completion of the Wind-Up, but Contractor shall cause such maintenance of Contractor Systems and Software to be performed as may be necessary for the effective and efficient operation of Purchaser's business. To the extent that such maintenance is performed by an Affiliated Party, the costs thereof shall be Indirect Costs borne solely by Contractor. To the extent that Contractor causes enhancements of Contractor Systems and Software to be performed, if Contractor elects to make them at its own expense, they shall be the property of Contractor and shall be subject to the provisions of Section 1 and this Section 2 pertaining to Contractor Systems and Software; if Contractor elects to make

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enhancements at Purchaser expense so that they fall within the definition of Purchaser Systems and Software set forth in Section 3, they shall be subject to the provisions of that Section.

Section 3. Systems and Software Developed with Purchaser Funds.

(A) If any accounting or recording systems (other than hardware and equipment) or application software or any other software or documentation are developed for use in connection with Purchaser's business (a) at least thirty percent (30%) at Purchaser expense, or (b) developed at a cost of more than twenty-five thousand dollars (\$25,000.00) to Purchaser (all of which shall constitute "Purchaser Systems and Software"), such Purchaser Systems and Software shall be the sole property of Purchaser until completion of the Wind-Up, and thereafter shall become the property of DRMS. Until the completion of the Wind-Up, Contractor or Purchaser shall inform DRMS quarterly in writing of any Purchaser Systems and Software developed during such quarter.

(B) Contractor shall have a non-exclusive, irrevocable and unconditional license, until the completion of the Wind-Up and for a period of ten (10) years thereafter, and without additional cost to Contractor, and a right to have delivered to it, to use, sublicense, transfer or otherwise market Purchaser Systems and Software, provided, however, that Contractor may sublicense, transfer or otherwise market Purchaser Systems and Software only with the prior written consent of, and on terms agreed to by, DRMS in the exercise of its sole discretion.

(C) If Purchaser develops any accounting or recording systems (other than hardware and equipment) or application software or any other software or documentation for use in connection with Purchaser's business that do not fall within the definition of Purchaser Systems and Software in this Section 3 ("Other Systems and Software"), such Other Systems and Software shall be the sole property of Contractor. Contractor may use, license, sublicense, assign, transfer or otherwise market Other Systems and Software to any other Person (including, without limitation, to any Affiliated Party) without DRMS's consent. Such use or marketing of Other Systems and Software shall be made upon such terms and conditions as Contractor may determine in its sole discretion and without compensation to Purchaser or to DRMS, provided, however, that such terms and conditions shall not prejudice DRMS's rights to use Contractor Systems and Software as set forth in Section 2, above.

(D) DRMS shall have a non-exclusive, irrevocable and unconditional license, until completion of the Wind-Up and for a period of three (3) years thereafter, and without additional cost to Purchaser or to DRMS (except as otherwise provided herein), and a right to have delivered to it for DRMS and its designated representatives to use, solely on DRMS's own behalf in managing any Remaining Assets and in reviewing Contractor's and Purchaser's performance of their obligations under this contract, Other Systems and Software; provided, however, that such delivery shall be only in the format and structure that is used by Contractor and/or Purchaser in performing their services under this contract

(E) Contractor makes no representations, warranties, or indemnities with respect to Purchaser Systems and Software or Other Systems and Software, provided, however, that Contractor agrees that it will use its best efforts to assure that computer data retention and transfer procedures maintain the integrity, reliability and security of the original data. Contractor shall not be responsible for maintaining or enhancing Purchaser Systems and Software or Other Systems and Software, either before or after completion of the Wind-Up, but Contractor shall

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cause such maintenance of Purchaser Systems and Software and Other Systems and Software to be performed until completion of the Wind-Up as may be reasonably necessary for the effective and efficient operation of Purchaser's business. To the extent that Contractor causes enhancements of Purchaser Systems and Software or Other Systems and Software to be performed at Purchaser's expense, such enhancements shall be the property of Purchaser until completion of the Wind-Up and the property of DRMS thereafter.

Section 4. Third-Party Software.

All third party software that Contractor uses in the performance of its services under this contract is referred to herein collectively as "Third-Party Software." Schedule VI.12.4 identifies all Third-Party Software that Contractor anticipates will be used by Purchaser in the performance of its services under this Agreement. Until completion of the Wind-Up, Contractor shall update Schedule VI.12.4 to the extent necessary to reflect its use of Third-Party Software accurately and shall quarterly inform DRMS in writing of any such additions to Schedule VI.12.4. To the extent that Contractor elects to use any Third-Party Software under which it holds a use license on the date of award in connection with Purchaser's business, Contractor shall transfer to Purchaser any such existing use license for such Third-Party Software as soon as possible after the date of award. In addition, it shall use reasonable efforts to obtain, as part of such transfer and at the expense of Purchaser as a Direct Cost, a sublicense for DRMS and its designated representatives to access and use the Third-Party Software. To the extent that Contractor or Purchaser elects to acquire Third-Party Software for use in connection with Purchaser's business following the date of award, Contractor shall, at the expense of Purchaser as a Direct Cost, obtain a use license for such Third-Party Software for Purchaser along with a sublicense for DRMS and its designated representatives to access and use the Third-Party Software.

Section 5. Software Documentation and Maintenance.

(A) Contractor or Purchaser shall retain all user documentation relating to any application or use of any and all accounting or recording systems or software, including without limitation all training manuals used or developed in connection with Contractor's or Purchaser's performance of services under this contract (the "User Documentation"). Contractor or Purchaser shall provide the originals or copies of such User Documentation, along with any updated non-third party source code with any related narratives, design level documents and schematics to all Contractor Systems and Software, all Other Systems and Software, and all Purchaser Systems and Software, to DRMS upon completion of the Wind-Up at DRMS's request; provided, however, that delivery of such User Documentation, source code and other materials by Contractor to DRMS shall be only in the format and structure that is used by Contractor and/or Purchaser in the performance of services under this Contract.

(B) Contractor makes no representations, warranties, or indemnities with respect to such User Documentation, source code and other materials, provided, however, that Contractor agrees that it will use its best efforts to assure that the User Documentation, source code and other materials will be maintained to ensure the integrity, reliability and security of those items. Contractor shall not be responsible for any training, maintenance or enhancement with respect to such User Documentation, source code or other materials, either before or after completion of the Wind-Up, but Contractor shall cause such maintenance of the User Documentation to be performed until completion of the Wind-Up as may be reasonably

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necessary for the effective and efficient operation of Purchaser's business. To the extent that such training, maintenance or enhancements are performed by an Affiliated Party, the costs thereof shall be Indirect Costs and borne solely by Contractor. To the extent that Contractor causes enhancements of User Documentation to be undertaken at Purchaser expense as a Direct Cost, such enhancements shall be the property of Purchaser until completion of the Wind-Up and the property of DRMS thereafter.

ARTICLE THIRTEEN. OPERATING ACCOUNT; WORKING CAPITAL

Section 1. Operating Account.

(A) Establishment.

Within thirty (30) Days of the date of award Purchaser shall establish, and shall maintain throughout the Performance Period and for so long as may be necessary during the Wind-Up, a demand deposit account, interest bearing if possible (the "Operating Account"), for the benefit of Purchaser, in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

(B) Maintenance of Sufficient Funds.

Contractor shall cause Purchaser to maintain sufficient funds in the Operating Account to meet the cash needs of Purchaser for the payment of Direct Costs and Seller Indirect Costs.

Section 2. Working Capital.

If Purchaser determines on any Business Day during the Performance Period or Wind-Up that there is a shortfall in the amount of funds required to meet Purchaser's immediate cash needs for the payment of Direct Costs and Seller Indirect Costs, Contractor shall advance funds to the Operating Account to the extent necessary to fund such shortfall.

Section 3. Funds in the Operating Account; Treatment of Interest.

The funds in the Operating Account, and all interest earned thereon, shall be funds of Purchaser and no funds other than Purchaser funds shall be deposited into such account.

Section 4. Working Capital Advances.

Amounts transferred by Contractor to Purchaser to fund the payment of Direct Costs and Seller Indirect Costs are "Working Capital Advances" (the unrepaid balance being the "Working Capital Advance Balance"). Working Capital Advances are repayable to Contractor by Purchaser, but without interest thereon, as funds become available to Purchaser and as Contractor shall direct. Repayments of Working Capital Advances are not Direct Costs, and the Working Capital Advance Balance is not a Purchaser Liability.

Section 5. Limited Right to Borrow Funds.

Other than Working Capital Advances obtained from Contractor, Purchaser shall not borrow funds for any other purpose or from any party other than Contractor, and Purchaser shall not pledge or grant any security interest in the Property for any purpose whatsoever. Notwithstanding the foregoing, Purchaser shall have the right **(i)** to accept unsecured short-term trade credit only from suppliers or vendors to Purchaser, which trade credit is extended in the

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ordinary course of such suppliers' or vendors' businesses, and **(ii)** to finance the purchase or lease of equipment and to grant a corresponding security interest therein.

Section 6. Deposits to Operating Account.

(A) Receipts.

No later than the close of business on the next Business Day following the Day of receipt of any funds on behalf of Purchaser, Purchaser shall deposit all such receipts into the Operating Account or Sales Deposit Account.

(B) Working Capital Advances.

No later than the close of business on the next Business Day following the Day of receipt of a Working Capital Advance, Purchaser shall deposit all such funds into the Operating Account.

(C) Contractor's Responsibility for Funds.

Contractor shall act as a fiduciary to Purchaser with respect to all funds Purchaser receives, holds and/or disburses.

Section 7. Disbursements from Operating Account.

(A) Costs Payable from Operating Account.

Purchaser shall timely pay from the Operating Account or a Transfer Account, and in accordance with the requirements of this Article 13, all amounts payable for Direct Costs and Seller Indirect Costs, which shall be paid in full when goods and services are provided or, in the case of suppliers extending trade credit pursuant to the provisions of Section 5, when invoiced.

(B) Limitation on Disbursements.

Purchaser shall make no disbursements from the Operating Account except for **(i)** payment of Distribution Payments and other adjustments pursuant to the provisions of Article 16, **(ii)** payment of Direct Costs and Seller Indirect Costs pursuant to the provisions of Article 9 and this Article 13, **(iii)** repayment of Working Capital Advances pursuant to the provisions of this Article 13, **(iv)** Purchase Transfers pursuant to the provisions of Article 14, and **(v)** transfer of funds to a Transfer Account pursuant to the provisions of Article 9 and this Article 13. Except as specifically provided in this contract, no other expense shall be paid, money lent or reimbursement made by Purchaser to any party.

(C) Signatures.

Any payment, including a transfer, from the Operating Account shall require the signature of an employee of Purchaser who is a Key Person. Any payment in excess of twenty-five thousand dollars (\$25,000.00) shall require the signatures of two of Purchaser's employees who are Key Persons, one of whom must be Purchaser's Chief Executive Officer.

Section 8. Transfer Accounts.

Purchaser may in the exercise of its sole discretion establish a zero balance bank account to facilitate third party payroll administration (a "Payroll Account"), zero balance purchase card bank accounts ("P-Card Accounts") to facilitate delegation of authority for expenditures and a zero balance sales depository account (a "Sales Deposit Account") to facilitate deposits and payments from earned income (each Payroll Account, P-Card Account, and Sales Deposit Account being a "Transfer Account"). Each Transfer Account

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shall be established in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

ARTICLE FOURTEEN. PURCHASE ACCOUNT

Section 1. Purchase Account.

(A) Establishment.

Within thirty (30) Days of the date of award Purchaser shall establish, and shall maintain throughout the Performance Period and for so long as may be necessary during the Wind-Up, a demand deposit account, interest bearing if possible (the "Purchase Account") for the benefit of Purchaser, in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

(B) Maintenance of Sufficient Funds.

Contractor shall cause Purchaser to maintain sufficient funds in the Purchase Account to meet the cash needs of Purchaser for the timely payment of Invoices for the purchase of Property.

Section 2. Purchase Advances.

If Purchaser determines on any Business Day during the Performance Period or Wind-Up that Purchaser requires additional funds in the Purchase Account to meet Purchaser's immediate cash needs for the payment of an Invoice, Contractor shall transfer funds to the Purchase Account (each such transfer, a "Purchase Advance") immediately to the extent necessary to fund such shortfall.

Section 3. Funds in the Purchase Account; Treatment of Interest.

The funds in the Purchase Account, and all interest earned thereon, shall be funds of Purchaser. Interest earned thereon shall be applied to defray the amounts of Purchase Advances and Purchase Transfers that would otherwise be required.

Section 4. Treatment of Purchase Advances.

Purchase Advances shall not be treated as Purchaser Liabilities, and shall not be repaid by Purchaser other than through Contractor Distributions. Purchaser shall not pay to Contractor any interest on Purchase Advances.

Section 5. Disbursements from Purchase Account.

Except during the Wind-Up as provided in Article 21, Purchaser shall make no disbursements or transfers from the Purchase Account other than payments to DRMS and to KGP for Invoices.

Section 6. Purchase Transfers.

At each time that a Contractor Distribution Payment is payable in an amount greater than zero after adjustment pursuant to the provisions of Subsections (1) and (2) of Section 4(D) of Article 16, Purchaser shall withhold therefrom and transfer from the Operating Account to the Purchase Account (a "Purchase Transfer") the amount reasonably estimated by Purchaser that, when added to the balance then available in the Purchase Account, will be required during the

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next succeeding thirty (30) Days for the timely payment of Invoices, provided, however, that the balance payable to Contractor shall not be less than zero. At any time that the Working Capital Advance Balance exceeds zero, Contractor in the exercise of its sole discretion may cause Purchaser to fund a Purchase Transfer in an amount less than or equal to the amount of the Working Capital Advance Balance, and the amount of the Working Capital Advance Balance shall be deemed reduced by the amount of such Purchase Transfer.

**ARTICLE FIFTEEN. FINANCIAL GUARANTEE BOND; RETENTION FUND;
ESTIMATED CONTINGENT LIABILITIES RESERVE**

Section 1. Election of Contractor to Provide Financial Guarantee Bond in Lieu of Retention.

Contractor shall either (i) obtain a performance bond or financial guarantee bond (the "Financial Guarantee Bond") issued within thirty (30) Days of the date of award in favor of DRMS and Purchaser on this contract in the amount of one million dollars (\$1,000,000.00), or (ii) be subject to the withholding of a portion of Contractor Distributions as provided in Section 3 hereof. The purpose of the Financial Guarantee Bond and the Retention Fund shall be to provide a source of payment to DRMS and/or to Purchaser in an amount reasonably sufficient to satisfy the financial obligations of Contractor.

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Section 2. Financial Guarantee Bond.

(A) Surety and Form of Bond.

The Financial Guarantee Bond shall be issued by such surety and in such form that are acceptable to DRMS in the exercise of its sole discretion.

(B) Issuance and Renewal.

The Financial Guarantee Bond shall be issued and, if applicable, renewed for periods of at least one year, renewable at the sole option of the surety.

(C) Liability and Release of Surety.

The surety shall be liable to DRMS for damages arising out of a Material Breach by Contractor or Purchaser, and the surety's liability on the Financial Guarantee Bond shall terminate with respect to a particular period of time upon approval by DRMS of Purchaser's Annual Report or, if applicable, the Closing Report, pertaining to such period of time, provided, however, that such approval may be conditioned by DRMS upon the final resolution of claims that may arise or have arisen out of occurrences specified by DRMS in its notice of such conditional approval, which occurrences fall in whole or in part within such period of time, and the surety shall remain liable until such claims are finally resolved.

Section 3. Retention Fund.

(A) Establishment of Retention; Retention Rate; Retention Fund; Required Retention Fund Balance.

Except as otherwise provided herein, beginning with the first calendar month (the "Retention Trigger Month") following the later of (i) the calendar month with respect to which the cumulative amount of Contractor Distribution Payments exceeds the cumulative amount of Purchase Advances or (ii) if applicable, the calendar month in which the Financial Guarantee Bond lapses or is terminated, ten percent (10%) (the "Retention Rate") of all Contractor Distribution Payments otherwise payable to Contractor in an amount greater than zero after adjustment pursuant to the provisions of Subsections (1), (2) and (3) of Section 4(D) of Article 16 shall be paid to DRMS ("Retention Payments") to hold in a fund.

(1) At the time of award and throughout the Performance Period and Wind-Up except as otherwise provided herein, the target balance for the Retention Fund (the "Required Retention Fund Balance") shall be five hundred thousand dollars (\$500,000.00).

(2) Except as otherwise provided herein, while a Financial Guarantee Bond that complies with the provisions of Sections 1 and 2 above of this Article 15 remains in effect, the Retention Rate shall be zero and the Required Retention Fund Balance shall be zero.

(3) Retention Payments shall continue from the Retention Trigger Month until the balance in the Retention Fund equals the amount of the Required Retention Fund Balance, provided, however, that the amount of the Retention Payment shall be zero with respect to any month for which the Contractor Net Worth Allocation Balance exceeds zero.

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(B) Insolvency of Contractor.

If Contractor voluntarily places itself or is involuntarily placed in proceedings under Title 11 of the United States Code (or corresponding provisions of future law) or any other federal or state insolvency law, Contractor shall so notify DRMS and Purchaser within ten (10) Days of the commencement of such proceedings. Effective with the earlier of receipt of such notice or receipt by DRMS of actual knowledge of the commencement of such proceedings, the Required Retention Fund Balance shall be increased by five-hundred thousand dollars (\$500,000.00) and Purchaser shall thereafter pay to DRMS, in addition to any other payments due to DRMS under the contract, including without limitation Retention Payments, ten percent (10%) of any Contractor Distribution Payments otherwise payable to Contractor in an amount greater than zero after adjustment pursuant to the provisions of Subsections (1), (2) and (3) of Section 4(D) of Article 16 ("Contractor Insolvency Retention Payments"). Contractor Insolvency Retention Payments shall be added to the amount of the Retention Fund, and such payments shall continue until the amount in the Retention Fund equals the Required Retention Fund Balance.

(C) Increased Retention.

If DRMS at any time after the Retention Trigger Month determines that the amount in the Retention Fund will likely not be sufficient to satisfy its purpose, it may submit the issues of the sufficiency of the amount of the Retention Fund or of the Retention Rate to the Dispute Resolution Panel in accordance with the provisions of Article 20 below. The Panel shall determine whether the total amount of the Retention Fund and/or the Retention Rate shall be increased in order to effectuate the purpose of Retention.

(D) Release of Retention Fund.

The balance in the Retention Fund shall be released to Contractor without interest thereon as provided in Article 21.

Section 4. Estimated Contingent Liabilities Reserve.

Effective as of the date of award, Purchaser shall establish an estimated contingent liabilities reserve account (the "ECLR") on its books of account. The ECLR shall represent an amount reasonably deemed from time to time by Purchaser to be sufficient to satisfy all of Purchaser's contingent, conditional and/or unmatured claims, liabilities and obligations that have not otherwise been accrued in accordance with GAAP. The ECLR shall be carried on the books of Purchaser as a liability, but shall not be included in the computation of Purchaser Liabilities. Purchaser shall maintain the ECLR throughout the Performance Period and Wind-Up until Contractor reasonably determines that all of the contingent, conditional and/or unmatured claims, liabilities and obligations of Purchaser have been satisfied, it being expressly understood that DRMS may submit to the Dispute Resolution Panel in accordance with the provisions of Article 20 a Dispute as to the appropriate duration or amount of the ECLR. So long as Purchaser maintains the ECLR on its books, it shall include within its Monthly, Quarterly and Annual Reports a written statement (the "ECLR Statement") of the amount of the ECLR and an itemization specifying the contingent, conditional and unmatured claims and obligations of Purchaser that the ECLR is intended to satisfy.

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ARTICLE SIXTEEN. DISTRIBUTIONS

Section 1. Monthly Distribution Statement.

Within fifteen (15) Days after the last Day of each calendar month that is in whole or in part within the Performance Period and Wind-Up, Purchaser shall prepare and submit to DRMS, KGP and Contractor the "Monthly Distribution Statement" with respect to such month in the form specified at Attachment VI.16.1. Purchaser shall perform the following calculations in preparing the Monthly Distribution Statement. Except as otherwise provided herein, all amounts shall be determined as of the close of business on the last Day of the subject month.

Section 2. Calculate Cash Available for Distribution and Operating Net Worth.

(A) Calculate Cash Available for Distribution.

Purchaser shall calculate the amount of Purchaser's "Cash Available for Distribution," equal to (x) the sum of the cash balances in the Operating Account and the Transfer Accounts (Purchaser's "Operating Cash Balance") minus (y) the sum of (i) the Working Capital Advance Balance, (ii) the amount of Purchaser Liabilities, (iii) Purchaser's reasonable estimate of the amount of cash required for the payment of Direct Costs for the next succeeding calendar month, (iv) Purchaser's reasonable estimate of the amount of cash required for the payment of Seller Indirect Costs during the next succeeding calendar month, and (v) the Estimated Contingent Liability Reserve (ECLR).

(B) Calculate Operating Net Worth.

(1) **Cash Available for Distribution is Less Than or Equal to Zero.** If Cash Available for Distribution is less than or equal to zero, the amount of Purchaser's "Operating Net Worth" shall equal the amount of Seller Indirect Costs paid during the subject month.

(2) **Cash Available for Distribution is Greater Than Zero.** If Cash Available for Distribution is greater than zero, the amount of Purchaser's "Operating Net Worth" shall equal (x) the Cash Available for Distribution plus (y) the amount of Seller Indirect Costs paid during the subject month.

Section 3. Calculate Net Worth Allocations.

(A) Calculate Contractor Net Worth Allocation.

Purchaser shall calculate the amount of the "Contractor Net Worth Allocation" as Operating Net Worth multiplied by twenty percent (20.00%).

(B) Calculate DRMS Net Worth Allocation.

Purchaser shall calculate the amount of the "DRMS Net Worth Allocation" as Operating Net Worth multiplied by seventy-eight and twenty one-hundredths percent (78.20%).

(C) Calculate KGP Net Worth Allocation.

Purchaser shall calculate the amount of the "KGP Net Worth Allocation" as Operating Net Worth multiplied by one and eighty one-hundredths percent (1.80%).

Section 4. Distribution Payments.

Purchaser shall make payments of Distributions (each, a "Distribution Payment") to DRMS, KGP and Contractor contemporaneously in accordance with the following provisions within fifteen (15) Days after the last Day of each calendar month that is in whole or in part within the Performance Period and Wind-Up:

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(A) As of the inception of the contract, the "Net Worth Allocation Balance" for DRMS, Contractor and KGP, respectively, shall be deemed equal to zero.

(B) DRMS Net Worth Allocation is Greater Than or Equal to the Sum of Seller Indirect Costs and DRMS Net Worth Allocation Balance.

If the DRMS Net Worth Allocation is greater than or equal to the sum of Seller Indirect Costs paid during the subject month and DRMS Net Worth Allocation Balance for the preceding calendar month, Purchaser shall calculate the amounts of the Distribution Payments and the Net Worth Allocation Balances for the subject month as follows.

(1) Calculate Contractor Distribution Payment and Contractor Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the "Contractor Distribution Payment" as the amount of **(i)** the Contractor Net Worth Allocation, plus **(ii)** the preceding calendar month's Contractor Net Worth Allocation Balance.

(b) The Contractor Net Worth Allocation Balance for the subject month shall equal zero.

(2) Calculate DRMS Distribution Payment and DRMS Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the "DRMS Distribution Payment" as the amount of **(i)** the DRMS Net Worth Allocation, minus **(ii)** the preceding calendar month's DRMS Net Worth Allocation Balance, minus **(iii)** Seller Indirect Costs paid during the subject month.

(b) The DRMS Net Worth Allocation Balance for the subject month shall equal zero.

(3) Calculate KGP Distribution Payment and KGP Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the "KGP Distribution Payment" as the amount of **(i)** the KGP Net Worth Allocation, plus **(ii)** the preceding calendar month's KGP Net Worth Allocation Balance.

(b) The KGP Net Worth Allocation Balance for the subject month shall equal zero.

(C) DRMS Net Worth Allocation is Less Than the Sum of Seller Indirect Costs and DRMS Net Worth Allocation Balance.

If the DRMS Net Worth Allocation is less than the sum of Seller Indirect Costs paid during the subject month and DRMS Net Worth Allocation Balance for the preceding calendar month, Purchaser shall calculate the amounts of Distribution Payments and Net Worth Allocation Balances as follows.

(1) Calculate Contractor Distribution Payment and Contractor Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount of the "Contractor Distribution Payment" as the amount of **(i)** ninety-one and seventy-four one-hundredths percent (91.74%), multiplied by **(ii)** Cash Available for

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Distribution, provided, however, that the Contractor Distribution Payment shall not be less than zero.

(b) Purchaser shall calculate the amount of the "Contractor Net Worth Allocation Balance" as the amount of **(i)** the Contractor Net Worth Allocation, plus **(ii)** the Contractor Net Worth Allocation Balance for the preceding calendar month, minus **(iii)** the Contractor Distribution Payment.

(2) Calculate DRMS Distribution Payment and DRMS Net Worth Allocation Balance.

(a) The amount of the "DRMS Distribution Payment" shall equal zero.

(b) Purchaser shall calculate the amount of the "DRMS Net Worth Allocation Balance" as the amount of **(i)** the DRMS Net Worth Allocation Balance for the preceding calendar month, minus **(ii)** the DRMS Net Worth Allocation, plus **(iii)** Seller Indirect Costs paid during the subject month.

(3) Calculate KGP Distribution Payment and KGP Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount of the "KGP Distribution Payment" as eight and twenty-six one-hundredths percent (8.26%) of the Cash Available for Distribution, provided, however, that the KGP Distribution Payment shall not be less than zero.

(b) Purchaser shall calculate the amount of the "KGP Net Worth Allocation Balance" as the amount of **(i)** the KGP Net Worth Allocation, plus **(ii)** the KGP Net Worth Allocation Balance for the preceding calendar month, minus **(iii)** the KGP Distribution Payment.

(D) Adjustments to Distributions.

(1) Purchaser shall deduct from the DRMS Distribution Payment and add to the Contractor Distribution Payment the amount of any credit for overpayments of Invoices owed by DRMS as required by the provisions hereof, provided, however, that the balance payable to DRMS shall not be less than zero.

(2) Any amount that Contractor owes to Purchaser as the result of an undisputed Audit Adjustment, a Decision of the Dispute Resolution Panel, a final judgment or other undisputed obligation in an amount certain, shall be deducted from the Contractor Distribution Payment, provided, however, that the balance payable to Contractor shall not be less than zero.

(3) Purchaser shall deduct from the Contractor Distribution Payment the amount of any Purchase Transfer required by the provisions of Article 14.

(4) Purchaser shall deduct from the Contractor Distribution Payment and add to the DRMS Distribution Payment the amount, if any, of Retention required by the provisions of Article 15.

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ARTICLE SEVENTEEN. COMPLIANCE AND MONITORING

Section 1. Purpose and Content of Compliance Reviews and Further Reviews.

(A) Compliance Reviews and Further Reviews.

DRMS shall have the right to conduct "Compliance Reviews" of Purchaser in accordance with, and as limited by, the provisions of this Article 17. DRMS may actually conduct the Compliance Reviews, or use other Government agencies or private firms, as the SCO deems appropriate. DRMS shall also have the right to conduct "Further Reviews" as provided herein. The purpose of such Compliance Reviews and Further Reviews is to determine, after the fact, the extent of Purchaser's compliance with the terms and provisions of the contract and applicable laws and regulations. Such Compliance Reviews and Further Reviews are not intended to provide a mechanism for DRMS participation or involvement in ongoing decision-making regarding the affairs of Purchaser. No-notice Trade Security Control reviews and inspections conducted by DLA Trade Security Control personnel are separate and distinct from the Compliance Reviews described in this Section.

(B) Methods.

Compliance Reviews may include, without limitation: (i) examination of the Records, and (ii) personal interviews of persons who may have knowledge of facts regarding Purchaser's compliance with the provisions of this contract, including employees of Purchaser or of any supplier or re-sale buyer.

Section 2. Procedures for Compliance Reviews.

(A) Procedures and Notice.

A Compliance Review shall be conducted at any time during normal business hours and on any Business Day upon reasonable notice. It is expressly agreed that a period of at least fourteen (14) Days shall constitute reasonable notice before a Compliance Review. Purchaser shall permit inspection of any physical location used by Purchaser, including, without limitation, the inventory (including the Records relating thereto), examination of the Records, making copies and abstracts therefrom, and discussions of the affairs, finances and accounts of Purchaser with any employee, subcontracting attorney or certified public accountant of Purchaser. DRMS shall use its best efforts to assure that Compliance Reviews are conducted in a manner that does not unduly burden or unreasonably impinge upon the efficient operation of the affairs of Purchaser.

(B) Scope.

The scope of Compliance Reviews shall be as necessary to confirm Purchaser's and Contractor's compliance with the provisions of the contract.

Section 3. Further Reviews.

If a Compliance Review determines that there is a reasonable basis to believe that a default or breach of this contract has occurred, DRMS, upon written notice to Contractor, may conduct any such further investigation that it deems appropriate under the circumstances, using such outside consultants, including attorneys, as it deems necessary or advisable ("Further Review"). Purchaser shall permit such persons as are designated by DRMS to visit and inspect any physical location used by Purchaser, including, without limitation, the inventory (including the Records relating thereto), and to examine the Records, make copies and abstracts therefrom,

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and discuss the affairs, finances and accounts of Purchaser with any employee, attorney or certified public accountant of Purchaser. Notwithstanding the foregoing, if Contractor gives notice to DRMS stating that a Further Review is not justified, DRMS shall delay the commencement of any such Further Review for a period of fourteen (14) Days after the delivery of its notice thereof to Purchaser to permit Contractor to seek a determination of the appropriateness of the Further Review pursuant to the provisions of Article 20.

Section 4. Compliance Notification.

After completing the Compliance Review and/or Further Review, DRMS shall notify Contractor in writing of any breach or default identified during the Compliance Review and/or Further Review.

Section 5. Costs of Oversight.

Except as provided in Article 20, DRMS shall pay all fees, costs and expenses incurred in connection with its Compliance Reviews and Further Reviews.

ARTICLE EIGHTEEN. AUDIT ADJUSTMENTS

Section 1. Notice of Audit Adjustment.

If any party determines that the Records reflect any inaccuracies requiring entry of an adjustment thereto (an "Audit Adjustment"), including, without limitation, the disbursement of any amount from the Operating Account or a Transfer Account that is inconsistent with any provision of the contract ("Ineligible Disbursement") or the disposition of an item of Property that is inconsistent with any provision of the contract ("Ineligible Disposition"), such party shall give written notice thereof to the other party or parties (a "Notice of Audit Adjustment").

Section 2. Procedures for Adjudication of Audit Adjustments.

If either Contractor or DRMS disputes an asserted Audit Adjustment, it may submit such dispute for resolution pursuant to the provisions of Article 20. Upon resolution of such dispute or, if no party submits a dispute for resolution pursuant to the provisions of Article 20 within sixty (60) Days of the Notice of Audit Adjustment, the Audit Adjustment shall be deemed confirmed as asserted.

Section 3. Remedies for Audit Adjustments.

Upon confirmation of an Audit Adjustment, (i) Purchaser will pay to the party in question, or the party will pay to Purchaser, as the case may be, the amount required to restore the parties to their respective positions *status quo ante*, and (ii) Purchaser will correct the Records in accordance with the Audit Adjustment as confirmed. If, as a result of the Audit Adjustment, Contractor is to pay Purchaser or Purchaser is to pay DRMS, each such payment shall include interest thereon calculated at the "Prime Rate" then most recently published in the *Wall Street Journal* plus two hundred (200) basis points or at the rate provided by applicable law.

ARTICLE NINETEEN. MATERIAL BREACH

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Section 1. Notice of Material Breach.

In the event of a material breach or default ("Material Breach") in the performance of the contract by Purchaser, Contractor or DRMS of their respective duties hereunder, the party asserting such Material Breach (the "Non-Breaching Party") shall serve notice thereof upon the party that committed or is alleged in the notice to have committed such Material Breach (the "Breaching Party").

Section 2. Response to Notice.

(A) Cure.

Except as otherwise provided herein, the Breaching Party may cure the Material Breach within thirty (30) Days of such notice (the "Cure Period") or within such longer Cure Period as the notice may provide unless, within the Cure Period, the Non-Breaching Party withdraws the notice in writing or extends the Cure Period in writing.

(B) Submission of Dispute to Dispute Resolution Panel.

Except as otherwise provided herein, the Breaching Party may dispute the asserted Material Breach by presenting such Dispute to the Dispute Resolution Panel as provided in Article 20.

Section 3. Termination.

Except as otherwise provided herein, referrals of Property by DRMS for sale to Purchaser hereunder shall terminate (a "Termination") upon notice thereof by the Non-Breaching Party to the Breaching Party served upon or after expiration of the Cure Period if the Breaching Party fails to cure within the Cure Period or, if the Non-Breaching Party submits the asserted Material Breach to the Dispute Resolution Panel as provided in Article 20 and the Panel issues a Decision confirming the asserted Material Breach, Termination shall be effective upon notice thereof by the Non-Breaching Party to the Breaching Party served upon or after the date of such Decision. Except as otherwise provided herein, Contractor, Purchaser and DRMS shall continue to perform their respective duties under the contract during the Cure Period and while a Dispute is pending before the Panel.

Section 4. Intentional Breach.

An asserted Material Breach comprised of an intentional breach of the Duty of Loyalty or the Duty of Care prescribed in Article 7 (an "Intentional Breach") may not be cured unless DRMS, in its sole discretion, specifies a Cure Period in the notice thereof. Termination shall be effective upon the later of the date of service of such notice or the expiration of the Cure Period, if any, unless Contractor or Purchaser presents a Dispute regarding such asserted Intentional Breach to the Dispute Resolution Panel as provided in Article 20 within five (5) Days of such notice or within the Cure Period specified in such notice, if any, whichever is longer. If such Dispute is presented to the Panel and the Panel issues a Decision confirming such Intentional Breach, Termination shall be effective upon the date of such Decision.

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Section 5. DRMS Remedies for Material Breach by Contractor or Purchaser.

If the Breaching Party is Purchaser or Contractor, DRMS may take any one, any combination or all of the following actions to satisfy its claims for any non-payments or other damages:

- (i) Apply the proceeds of the sale of Purchaser's property;
- (ii) Apply the Payment Deposit and/or Retention;
- (iii) Present a claim for indemnity against Contractor as provided in Section 6 below;
- (iv) Present a claim upon the Fidelity or Blanket Bond or any other applicable insurance or surety policy;
- (v) Seek appointment of a receiver or trustee for Purchaser;
- (vi) Seek monetary damages, restitution or any other legal or equitable remedy to which it is entitled;
- (vii) Assert any other right, claim, or remedy available pursuant to the Contract Disputes Act.

Section 6. Indemnification of DRMS by Contractor and Purchaser.

Contractor guarantees that Purchaser will comply fully with the provisions of this contract. If the Breaching Party is Purchaser or Contractor, both Purchaser and Contractor shall indemnify and hold DRMS harmless for all damages arising therefrom.

Section 7. Indemnification of Contractor by DRMS.

If the Breaching Party is DRMS, DRMS shall indemnify and hold Contractor harmless for its damages.

ARTICLE TWENTY. DISPUTE RESOLUTION

The procedure provided in this Article is intended to be elective and not to supplant any Contract Disputes Act rights of any party. DRMS's Sale by Reference, Part 2, Condition 32, continues to apply.

Section 1. Selection of Dispute Resolution Panel.

The Dispute Resolution Panel (the "Panel") shall consist of three (3) persons chosen as follows:

(A) Appointment of Arbitrators.

Within thirty (30) Days following service of notice of a "Dispute" (as such term is defined in Section 4(A) below of this Article 20), DRMS and Contractor shall each notify the other of its designee to serve as its representative (each, an "Appointed Arbitrator") on the Panel. Within thirty (30) Days thereafter, the two Appointed Arbitrators shall agree to designate a third person (the "Neutral Arbitrator") to serve on the Panel and each party shall provide notice to the other confirming such designation. If the two Appointed Arbitrators cannot agree on the Neutral Arbitrator, either party may submit to the Washington, D.C. office of the American Arbitration Association (the "AAA") a written joint request for the selection of the Neutral Arbitrator pursuant to AAA's Rules for Commercial Arbitration ("AAA Rules").

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(B) Service of Arbitrators.

DRMS and Contractor each may replace its respective Appointed Arbitrator at any time except during the pendency of a proceeding before the Panel (unless such replacement is necessitated by the death or disability of the Appointed Arbitrator or, in the case of DRMS's Appointed Arbitrator, by reason of job transfer, reassignment or similar circumstance, or in the case of Contractor's Appointed Arbitrator, by reason of termination of employment or resignation by the Appointed Arbitrator). The Neutral Arbitrator shall serve on the Panel for a one year term unless reappointed or unless replaced by the mutual consent of DRMS and Contractor. At the end of each one-year term, the Appointed Arbitrators may agree either to reappoint the Neutral Arbitrator for another one-year term, or select a replacement as Neutral Arbitrator as provided in Section 1(A) above. If at any time the Neutral Arbitrator becomes unable or unwilling to continue service on the Panel, the parties shall, within thirty (30) Days of receipt of notice thereof from the Neutral Arbitrator (or if the Neutral Arbitrator fails to give such notice, from the Appointed Arbitrators), designate a replacement as provided in Section 1(A) above.

(C) Expenses.

Contractor and DRMS shall each bear the costs of its respective Appointed Arbitrator and shall equally share the costs of the Neutral Arbitrator. Neither such costs nor any other cost, fee or expense of any character whatsoever that is incurred to support, present or document a party's position in a proceeding before a court, Board, the Panel or any other tribunal shall be a Direct Cost.

Section 2. Location and Governing Rules.

The Panel shall conduct proceedings in Battle Creek, Michigan pursuant to the AAA Rules.

Section 3. Jurisdiction of the Panel.

(A) Matters Committed to the Panel.

Except as set forth in Section 3(B) below, any Dispute may be submitted to the Dispute Resolution Panel for voluntary, binding arbitration.

(B) Availability of Judicial Relief.

Either DRMS or Contractor may bypass the Panel and seek relief in connection with a Dispute including, without limitation, emergency relief, monetary damages, and/or the Wind-Up of Purchaser, from a court of competent jurisdiction. It is expressly provided, however, that the party seeking such relief shall provide written notice to the opposing party specifying the facts giving rise to the Dispute, and, except in emergency circumstances or unless otherwise provided herein, the opposing party shall have thirty (30) Days following receipt of such notice in which to cure the facts underlying the Dispute before the party serving such notice may seek such judicial relief.

Section 4. Submission of Disputes to the Panel.

(A) Dispute.

Any dispute, controversy or claim arising under or relating to this contract between the parties, including, but not limited to, a dispute relating to the interpretation of any provision of this contract, a dispute relating to the scope or conduct of Purchaser's or Contractor's duties under

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this contract, a dispute regarding DRMS's exercise of its oversight powers under Article 17, and a dispute relating to any Audit Adjustment, shall constitute a "Dispute".

(B) Process.

(1) **Notice.** Except as to matters explicitly committed to the “discretion” or “option” of a party, as to which such party’s exercise of its discretion or option shall not be subject to the following dispute resolution process, if a Dispute arises between the parties, either may serve notice upon the other that it wishes to present the Dispute to the Panel for resolution, provided, however, that no such notice shall be served beyond completion of the Wind-Up.

(2) **Response.** Within fifteen (15) Days after service of a notice, the party upon which it is served shall respond in writing (“Response”). The Response shall state whether such responding party agrees to binding arbitration as provided in this Article 20 and, if such party so agrees, the Response shall describe the responding party’s position with respect to such matter and shall designate the attorney(s) or other representative (“Designated Representative”) that such party has selected to represent it in connection with such matter. A Response that does not expressly state that the responding party does not agree to binding arbitration shall be deemed to constitute such party’s agreement to participate in binding arbitration as provided in this Article 20.

(3) **Negotiation.** Within fifteen (15) Days after service of the Response, the Designated Representatives shall meet and attempt to resolve the matter. Within the same fifteen (15) Day period, the Designated Representatives also shall deliver copies of their respective notices and Responses to each member of the Panel. If the Designated Representatives fail to resolve the dispute within ten (10) Business Days after service of the Response, each party shall within five (5) Business Days so notify the Panel and deliver to the Panel such written information, arguments, documentary evidence, and other written documentation, as it may deem appropriate.

(4) **Request for Immediate Action by the Panel.** If a party believes that a situation has arisen that requires immediate action by the Panel, any party may serve a notice upon each member of the Panel and upon the other party to request such immediate action.

Section 5. Decision.

The Panel shall issue a written decision (the “Decision”) endorsed by a majority of the Panel as promptly as possible, but in no event later than forty-five (45) Days after the close of the arbitration bearing for the matter. Within thirty (30) Days of the issuance of a Decision, either party may bring suit in a court of competent jurisdiction under the federal Contract Disputes Act for enforcement of the Decision. It is not the intent of the parties that such court will engage in de novo review of the underlying matter. Absent such suit, upon the expiration of such thirty (30) Day period the Decision shall be binding on both parties and enforceable by a court of competent jurisdiction. Immediately upon expiration of such thirty (30) Day period, Purchaser shall correct the Records as necessary to comply with the Decision, the respective parties shall pay to the other such sums as ordered by the Decision, and the parties shall cooperate to take all such actions that in other respects may be necessary to comply with the Decision.

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Section 6. Remedies Available to Dispute Resolution Panel.

(A) Remedies in the Case of Disputes.

Upon the request of either party, the Panel may issue a Decision declaring the rights and obligations of the parties with respect to any Dispute submitted to the Panel, or a Decision ordering either party to take any action that the Panel deems appropriate within the scope of the contract, including without limitation payment of damages, or to refrain from taking certain actions specified by the Panel. In addition, and without limiting the foregoing, the Panel also may issue an order directing any party to comply with the requirements of the contract and may specify the actions necessary to constitute compliance.

(B) Remedies for Ineligible Disbursements.

If the Panel confirms a disputed Audit Adjustment arising out of an Ineligible Disbursement, the Panel may order Contractor to pay Purchaser from Contractor’s own funds the amount of any such Ineligible Disbursement.

(C) Award of Costs.

In addition to the remedies described in Subsections (A) and (B) above, the Panel shall award the reasonable fees, costs and expenses (“Awarded Costs”) actually incurred in the prosecution or defense of a Dispute to the prevailing party. Awarded Costs shall be calculated from the commencement of preparation of the notice as defined in Section 4(B) through the conclusion of proceedings before the Panel. Awarded Costs shall not constitute Direct Costs and shall be borne by the non-prevailing party.

Section 7. Effective Date.

Disputes that are resolved or confirmed by a Decision shall be deemed confirmed as of the date that is thirty (30) Days after the date of issuance of the relevant Decision.

Section 8. Agreement to Use Alternative Dispute Resolution.

The parties agree to use their best efforts to resolve any disputes that may arise without litigation. If unassisted negotiations are unsuccessful, the parties will use alternative dispute resolution (“ADR”) techniques in an attempt to resolve the dispute. Litigation will only be considered as a last resort when ADR is unsuccessful or has been documented by the party rejecting ADR to be inappropriate for resolving the dispute. If the ADR is not successful, the parties retain their existing rights.

ARTICLE TWENTY-ONE. WIND-UP OF PURCHASER

Section 1. Wind-Up Commencement Date.

Beginning with the date (the “Wind-Up Commencement Date”) that is the earlier of (1) the end of the Performance Period or (2) the effective date of Termination by reason of DRMS or Contractor exercising the early cancellation option as provided in Article 2 or by reason of a Material Breach, the contract shall be wound up as provided herein.

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Section 2. Cessation of Property Referrals.

There shall be no further referrals of Property by DRMS for sale to Purchaser from the Wind-Up Commencement Date forward. Submission of Monthly, Quarterly and Annual Reports shall continue as before the Wind-Up Commencement Date until the Wind-Up is completed.

Section 3. Conduct of Wind-Up.

From the Wind-Up Commencement Date forward, Purchaser and Contractor shall perform their remaining obligations hereunder in accordance with the provisions of this contract. If Purchaser and Contractor are unable or unwilling to do so, or if DRMS reasonably concludes that the value of its remaining interest in Purchaser's Net Proceeds is at risk by reason of actual or threatened failure to comply with provisions of the contract, DRMS may seek administrative or judicial relief to preserve the value of such remaining interest in Purchaser's Net Proceeds.

Section 4. Submission and Approval of Closing Report.

(A) Preparation by Contractor.

Within one hundred twenty (120) Days of Contractor's determination that **(i)** the sale or other disposition of all of Property and all other assets owned by Purchaser as of the Wind-Up Commencement Date (the "Remaining Assets," including such Property that, as of the Wind-Up Commencement Date, has been referred for sale to Purchaser but as to which the Purchaser has not taken Delivery) has been completed, **(ii)** all Purchaser Liabilities have been paid in full, **(iii)** the ECLR has properly been removed from Purchaser's books of account as provided in Article 15, and **(iv)** all amounts owed by Purchaser have been paid in full, Contractor shall prepare and submit to DRMS and to KGP the Closing Report.

(B) Preparation by DRMS.

If Contractor is unable or unwilling to prepare the Closing Report, DRMS may take such steps as are reasonably necessary to enable the calculation and payment of final amounts payable to DRMS, KGP and Contractor as determined by application of the provisions of Article 16 and of Section 5(B) below of this Article 21.

Section 5. Final Distributions; Refund of Remaining Balance of Payment Deposit and Remaining Balance of Retention Fund.

(A) Final Distributions; Dissolution of Purchaser.

Upon DRMS approval of the Closing Report, Contractor shall take, or as may be appropriate, Contractor shall cause Purchaser to take, each of the following actions:

- (1) Final Distributions.** Distribute all of Purchaser's remaining cash in accordance with the provisions of Article 16, and refund to Contractor the remaining cash in the Purchase Account, if any.
- (2) Close Operating Account and Purchase Account.** Close Purchaser's Operating Account, Transfer Accounts and Purchase Account.
- (3) Final Tax Returns.** File closing tax returns and any other documents required by applicable law.
- (4) Dissolution of Purchaser.** File such documents as are necessary to conclude Purchaser's legal existence.

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(5) Documentation and Payment Provided to DRMS. Provide to DRMS and to KGP copies of all documents evidencing compliance with the provisions of this Article 21 and payment of any Distribution Payments owed to DRMS under Article 16.

(B) Refund of Payment Deposit and Retention Fund.

Upon receipt by DRMS and KGP of all amounts payable thereto and all documentation to be provided pursuant to the provisions hereof, DRMS shall pay to Contractor the remaining balances, if any, of the Payment Deposit and Retention Fund without interest.

(C) Early Refund of Retention Fund.

Contractor may obtain payment from DRMS of the balance in the Retention Fund without interest at any time before conclusion of the Wind-Up by providing a Financial Guarantee Bond in the amount of one million dollars (\$1,000,000.00) that is issued for the remaining Performance Period through the conclusion of the Wind-Up, and that is otherwise acceptable to DRMS in the exercise of its sole discretion.

ARTICLE TWENTY-TWO. MISCELLANEOUS PROVISIONS

Section 1. Binding Effect.

Subject to the restrictions on transfers and encumbrances set forth herein, this contract shall inure to the benefit of and be binding upon DRMS, Contractor and Purchaser, and their respective legal representatives, successors and assigns. Whenever this contract refers to any party, such reference shall be deemed to include a reference to the legal representatives, successors and assigns of such party.

Section 2. Notices.

All notices, demands, requests, consents, approvals, declarations, reports and other communications required hereunder shall be in writing except as otherwise provided herein and addressed as follows, and the same shall be given and shall be deemed to have been served and given if **(i)** delivered in person, **(ii)** delivered by registered or certified U.S. mail, return receipt requested, postage prepaid, **(iii)** deposited into the custody of Federal Express Corporation or other reputable overnight carrier ("Overnight Carrier") for next Business Day delivery, **(iv)** telecopied, or **(iv)** electronically transmitted:

If to DRMS:

Tina Aldrich
Sales Contracting Officer

With a copy of each such material communication to:

Kormendi \ Gardner Partners
1025 Connecticut Avenue, N.W.
Suite 308
Washington, D.C. 20036

Attention: Cyrus J. Gardner and Roger C. Kormendi
Telecopy No. (202) 331-1151

If to Contractor or Purchaser to:

[CONTRACTOR CONTACT INFORMATION FROM CONTRACTOR'S ITEM BID AND AWARD PAGE; MAY BE AMENDED BY CONTRACTOR AFTER AWARD AS PROVIDED BELOW]

With a copy of each such material communication to:

Kormendi \ Gardner Partners
1025 Connecticut Avenue, N.W.
Suite 308
Washington, D.C. 20036

Attention: Cyrus J. Gardner and Roger C. Kormendi
Telecopy No. (202) 331-1151

or at such other address as may be substituted by giving not less than five (5) Business Days advance written notice of such change of address in accordance with the provisions hereof. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Except as otherwise provided in this contract, every notice, demand, request, consent, approval, declaration or other communication provided pursuant to the provisions hereof shall be acknowledged by the recipient by an original writing or photocopy thereof, by telecopy or by electronic transmission, with date of receipt indicated thereon, and shall be deemed to have been duly served, delivered and received on the earlier of **(x)** the date of such acknowledgement of receipt by an original writing or photocopy thereof, by telecopy or by electronic transmission, regardless of the original mode of delivery, or **(y)** the date on which telecopied and confirmed by telecopy answerback, or on the second Business Day after being deposited with an Overnight Carrier, or five (5) Business Days after being deposited in the U.S. mail, provided, however, that Invoices, Property Referral Lists and Purchaser's Reports delivered electronically need not be acknowledged and shall be deemed received, delivered and served upon such transmission. Failure or delay in delivering any notice, demand, request, consent,

approval, declaration or other communication to a party or to any persons designated above to receive a copy thereof shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

Section 3. Severability; Consolidation with CV-1

(A) If any provision of this contract or the application thereof to any Person or circumstance shall be invalid or unenforceable to any extent, the remainder of this contract and the application of such provisions to other Persons or circumstances shall not be affected thereby, and the intent of this contract shall be enforced to the greatest extent permitted by law, provided, however, that, if any of the provisions of Article 5, Section 1 ("Payment Deposit") or the application thereof to any Person or circumstance shall be determined in a final judgment rendered by a court or other tribunal of competent jurisdiction to be invalid or unenforceable to any extent, DRMS may in the exercise of its sole discretion cause Termination by notice served within thirty (30) days of the date upon which such judgment becomes final, such Termination to be effective five (5) Days after the date of service of such notice.

(B) In the event that the CV-1 and CV-2 transactions or operations are consolidated in whole or in part, the provisions of this CV-2 IFB shall supersede any conflicting provisions of the CV-1 contract.

Section 4. Headings.

The headings appearing in this contract are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of any article or section of this contract.

Section 5. Survival.

The rights and obligations of the parties under this contract shall survive for a period of six (6) years after the completion of the Wind-Up.

Section 6. Waiver.

No consent or waiver, express or implied, by any party to or of any breach or default by any other party in the performance by such other party of its obligations under this contract shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligations of such other party under this contract. Failure on the part of any party to complain of any act or failure to act by any of the other parties or to declare any of the other parties in default, regardless of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder.

Section 7. Force Majeure.

The parties shall be excused for the period of any delay in the performance of any obligations under this contract when prevented from performing such obligations by cause or causes beyond their reasonable control, including, without limitation, civil commotion, war, invasion, rebellion, hostilities, military or usurped power, sabotage, pestilence, riots, fire or other casualty or acts of God.

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Section 8. Use of DRMS Name; Public Communications.

Neither Contractor nor Purchaser shall use the name of DRMS or its logos for any marketing or other purposes without the express prior written consent of DRMS, which consent may be withheld for any reason whatsoever and is subject to the sole discretion of DRMS. Neither Contractor nor Purchaser shall publicly denigrate the surplus property disposition program of the U.S. Department of Defense or the conduct thereof by DRMS.

Section 9. Tense and Gender.

Unless the context clearly indicates otherwise, the singular shall include the plural and vice versa. Whenever the masculine, feminine or neuter gender is used inappropriately in this contract, this contract shall be read as if the appropriate gender had been used.

Section 10. Entire Agreement; Modification.

This contract, and the materials incorporated herein by reference, constitute the entire agreement between the parties regarding the matters contained in this contract. If there is any inconsistency between the terms of this contract and those of any Appendix, Schedule or Exhibit hereto, the terms of this contract shall govern. There are no promises or other agreements, oral or written, express or implied, between the parties other than as set forth in this contract. No change or modification of, or waiver or compromise under, this contract shall be valid unless it is in writing and signed by a duly authorized representative of the party against which it is to be enforced. Contractor understands and agrees to submit a written request for contract modification to the SCO prior to effecting any change from that stated in its technical proposal (including any subcontractors identified therein), and/or Sale of Government Property-Item Bid Page, whether occurring before or after the release of the Property. Contractor further agrees not to effect such changes without first receiving the written approval of the SCO.

Section 11. Computation of Time.

In computing any period of time prescribed or allowed by this contract, the Day of the act, event, or default from which the designated period of time begins to run shall not be included. The last Day of the period so computed shall be included unless it is not a Business Day, in which event the period runs until the end of the next Business Day.

Section 12. Electronic Communication.

DRMS and Purchaser shall cooperate to facilitate delivery of Property Referral Lists, Invoices and Purchaser's Reports to the extent reasonably practical by electronic transmission, such as by electronic mail or file transfer, rather than by delivery of a physical removable magnetic or optical storage medium.

ARTICLE TWENTY-THREE. DEFINITIONS AND CROSS-REFERENCES TO DEFINITIONS

AAA Rules: As defined in Article 20.

Acquisition Value: With respect to each item of Property that is (i) identified by National Stock Number, the unit price of such item as it is recorded in the Federal Logistics

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Information System at the time that data concerning the turn-in of the Property are input into the Defense Automated Information System, or (ii) identified by Local Stock Number, the original cost if available or the estimated replacement cost, as determined by the generator of such item and recorded on the corresponding turn-in document provided to DRMS by the generator. The Acquisition Value of a particular Line Item of Property is reported on the Property Referral List as "Acquisition Value Available," which is the product of "Quantity Available" (measured in the applicable unit of issue, e.g., each, box, dozen, etc.) multiplied by "Item Unit Price."

Additional NSN Data: As defined in Article 4.

ADR: As defined in Article 20.

Affiliate Transaction: Either (i) any sale by or on behalf of Purchaser of goods, assets, property or services to, or purchase by or on behalf of Purchaser of goods, assets, property or services from, an Affiliated Party, including, without limitation, the purchase or sale of, or of any interest in, any of the subject Property, or (ii) any transaction on behalf of Purchaser conditioned upon or involving any action or transaction entered into by any Affiliated Party, including, without limitation, a transaction that directly or indirectly benefits an Affiliated Party.

Affiliated Party: (i) Contractor or any other Person that directly, or indirectly through one or more Intermediaries, controls, is controlled by or is under common control with, Contractor or Purchaser; or (ii) any Person that is a director, officer, management official, employee, trustee or general partner of, or an owner of an equity interest of one percent (1%) or more or a beneficiary of a trust owning an equity interest of one percent (1%) or more in, Contractor or any other Person specified in clause (i) above; or (iii) any individual Person related by blood, marriage or guardianship within two (2) degrees of affinity to any individual Person specified in clauses (i) or (ii) above. For purposes of this definition, a Person shall be presumed to have control when such Person possesses the power, directly or indirectly, or has the power to direct, or cause the direction of, the management or policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. In addition, and without limiting the foregoing, an employee or subcontractor of Purchaser or Contractor shall be deemed to be an Affiliated Party if he, she or it derives fifty percent (50%) or more of its gross compensation or revenues in any twelve (12) months within the Performance Period or the Wind-Up from Purchaser or from an Affiliated Party.

Annual Pricing Correction: As defined in Article 6.

Annual Report: As defined in Article 8.

Appointed Arbitrator: As defined in Article 20.

Acquisition Value Available: As defined in Article 4.

Audit Adjustment: As defined in Article 18.

Awarded Costs: As defined in Article 20.

Base Closure: As defined in Article 3.

Base Compensation: As defined in Article 7.

Benchmark Performance Ratio: As defined in Article 2.

Bid Category: As defined in Part III.A.

Bid Deposit: As defined in Article 1.

Bid Percentage: The amount, expressed as a percentage of Acquisition Value, offered by Contractor on its Bid Schedule, Attachment III-2, with respect to items of Property in a particular Product Subpool Bid Category.

Bid Price: As defined in Part III.B.

Bid Schedule Pool: As defined in Part III.B

BRAC: Base Realignment and Closure Commission.

Breaching Party: As defined in Article 19.

Business Day: Any Day that is not a Saturday, a Sunday or a holiday observed by the federal government. Federal holidays presently are: New Year's Day, Martin Luther King, Jr. Day, President's Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veteran's Day, Thanksgiving Day and Christmas Day.

Closing Report: As defined in Article 8.

CV Performance Ratio: As defined in Article 2.

Commingled R/T/D: As defined in Article 3.

Compliance Review Firm: As defined in Article 17.

Compliance Review: As defined in Article 17.

Contractor: The bidder that is selected for the award of the contract.

Contractor Distribution Payment: As defined in Article 16.

Contractor Indirect Cost: Each cost that is not a Direct Cost and is to be paid solely by Contractor.

Contractor Insolvency Retention Payment: As defined in Article 15.

Contractor Systems and Software: As defined in Article 12.

Contractor's Purchase Price: With respect to a particular item of Property, the product of such item's Acquisition Value multiplied by the applicable Bid Percentage.

Cure Period: As defined in Article 19.

CV-1: That certain sale contract awarded by DRMS on July 14, 1998 between DRMS as seller, and Levy / Latham LLC as "Contractor" and Levy / Latham Global LLC as "Purchaser" and buyer.

CV-1 Items: All equipment, supplies, materials and other items declared excess to the needs of the Department of Defense and surplus to the needs of the Federal Government, and received by DRMS on its accountable record, with a DRMS Hazardous Materials Code other than "W" or "M," that have not been removed by Reutilization/Transfer/Donation (R/T/D) claimants as of fifteen (15) Days after a particular such item's End of Screening Date at locations within the Continental United States and identified by the combinations of DRMS Demilitarization Codes and FSCs that are designated as "CLIN 002" in Table IV-1 in Part IV, "Item Description."

CV-1 Property Referral Date: As defined in Article 1.

CV-2 Items: All equipment, supplies, materials and other items declared excess to the needs of the Department of Defense and surplus to the needs of the Federal Government, and received by DRMS on its accountable record, with a DRMS Hazardous Materials Code other than “W” or “M,” that have not been removed by Reutilization/Transfer/Donation (R/T/D) claimants as of fifteen (15) Days after a particular such item’s End of Screening Date at locations in the United States, Guam and Puerto Rico and identified by the combinations of DRMS Demilitarization Codes and FSCs that are designated as “CLIN 001” in Table IV-1 in Part IV, “Item Description.”

Day: A calendar day.

Decision: As defined in Article 20.

Delivery Point: As defined in Article 3.

Demilitarization Code (DEMIL Code): A single character alphabetical code assigned to each item of Property by federal procurement authorities that signifies the applicability of particular demilitarization, mutilation or trade security (export) control requirements.

Department of Defense Activity Account Code: As defined in Article 4.

Delivery: As defined in Article 3.

Designated Representative: As defined in Article 20.

Direct Cost: As defined in Article 9.

Discrepancy: As defined in Article 6.

Disposal Turn in Document Number: As defined in Article 4.

Dispute: As defined in Article 20.

Distribution: A Distribution Payment as adjusted pursuant to the provisions of Article 16.

Distribution Amount: As defined in Article 16.

Distribution Payment: As defined in Article 16.

DLA: Defense Logistics Agency.

DLA Depot: As defined in Article 3.

DoD: U.S. Department of Defense

Downgrade Norm: As defined in Article 6.

Downgrade Rate Subcategory: As defined in Article 6.

Downgrade Rate: As defined in Article 6.

DRMO: Defense Reutilization and Marketing Office.

DRMO Name: As defined in Article 4.

DRMS Warehouse: As defined in Article 3.

DRMO RIC and RIC Suffix: As defined in Article 4.

ECLR: The Estimated Contingent Liabilities Reserve, as defined in Article 15.

End of Screening Date: The last day of the forty-two (42) day minimum period prescribed by applicable federal law for the screening by potential R/T/D claimants of items turned in to DRMS by generators.

End Use Certificate (EUC): Either a DRMS Form 2 or a DLA Form 1822 (copies of which forms are attached as Attachment VI.5.B).

Estimated Contingent Liabilities Reserve: As defined in Article 15.

EUC: End Use Certificate; either a DRMS Form 2 or a DLA Form 1822 (copies of which forms are attached as Attachment VI.5.B).

Federal Supply Classification (FSC): The federal government’s system of identifying and categorizing items of tangible personal property; FSCs that pertain to the Property are set forth at Table IV-1 in Part IV, “Item Description.”

Fidelity Bond: As defined in Article 11.

Fiscal Year: For a particular calendar year, the twelve (12) calendar month period concluding on 30 September of such year.

catastrophic failure resulting in loss or serious damage to the aircraft or an uncommanded engine shutdown resulting in an unsafe condition.

FSC: Federal Supply Classification; FSCs that pertain to the Property are set forth at Table IV-1 in Part IV, “Item Description.”

Further Review: As defined in Article 17.

GAAP: As defined in Article 8.

Gross DRMS Distributions: As defined in Article 16.

Gross Proceeds: With respect to a particular period of time, all revenues obtained by Purchaser from any source whatsoever excepting (i) Purchase Advances and (ii) Working Capital Advances, but including without limitation all revenues from the sale or rental of Property, buyers’ premiums and insurance proceeds.

Independent Auditor: Independent national accounting firm engaged by Purchaser to audit Purchaser’s Records.

Ineligible Disbursement: As defined in Article 18.

Ineligible Disposition: As defined in Article 18.

Inventory Item Name: As defined in Article 4.

Inventory Status Report: As defined in Article 8.

Invoice: As defined in Article 5.

Item Unit of Issue: As defined in Article 4.

Item Unit Price: As defined in Article 4.

Key Person: Each individual who is identified as such in Contractor’s technical proposal.

Line Item: As defined in Article 4.

Local Stock Number: As defined in Article 4.

Manual Upgrade Records: As defined in Article 6.

Material Breach: As defined in Article 19.

Monthly Distribution Statement: As defined in Article 16; see Attachment VI.16.1.

Monthly Report: As defined in Article 8.

National Item Identification Number: As defined in Article 4.

National Stock Number [or] Local Stock Number: As defined in Article 4.

Net DRMS Distributions: As defined in Article 16.

Net Proceeds: With respect to a particular period of time, the amount of Gross Proceeds less the amount of Direct Costs.

Neutral Arbitrator: As defined in Article 20.

Non-Breaching Party: As defined in Article 19.

Notice of Audit Adjustment: As defined in Article 18.

On-Site Processing: As defined in Article 3.

Operating Account: As defined in Article 13.

Operating Cash Balance: As defined in Article 16.

Operating Net Worth: As defined in Article 16.

Other Systems and Software: As defined in Article 3.

Overnight Carrier: As defined in Article 22.

Panel: As defined in Article 20.

Payment Deposit: As defined in Article 5.

Payroll Account: As defined in Article 13.

P-Card Account: As defined in Article 13.

Performance Period: As defined in Article 2.

Performance Ratio: As defined in Article 2.

Performance Ratio Property: As defined in Article 2.

Permitted Affiliate Transaction: As defined in Article 9; see Schedule V1.7.3(C).

Person: Either (i) an individual, or (ii) a business entity of any form of organization whatsoever.

Phase-In Period: As defined in Article 3.

Phase-In Schedule: As defined in Article 3.

Post-Receipt Downgrade: As defined in Part II, Section B.

Post-Receipt Upgrade: As defined in Part II, Section B.

Pre-Payment: As defined in Article 5.

Pricing Correction: As defined in Article 6.

Pricing Discrepancy Benchmark: As defined in Article 6.

Pricing Adjustment Ratio: As defined in Article 5.

Product Subpool: As defined in Part III.A.

Product Subpool Acquisition Value: As defined in Part III.B.

Product Subpool Bid Category: As defined in Part III.A.

Product Subpool Weight: As defined in Part III.A.

Property: All equipment, supplies, materials and other items declared excess to the needs of the Department of Defense and surplus to the needs of the Federal Government, and received by DRMS on its accountable record, with a DRMS Hazardous Materials Code other than “W” or “M,” that have not been removed by Reutilization/Transfer/Donation (R/T/D) claimants as of fifteen (15) Days after a particular such item’s End of Screening Date at locations within the United States, Guam and Puerto Rico, and (i) before the CV-1 Property Referral Date, identified by the combinations of DRMS Demilitarization Codes and FSCs that are designated as “CV-2 Items” (CLIN 001) in Table IV-1 in Part IV, “Item Description,” or (ii) as of the CV-1 Property Referral Date and thereafter, all such items identified by the combinations of DRMS Demilitarization Codes and FSCs that are designated as either “CV-1 Items” (CLIN 002) or “CV-2 Items” (CLIN 001) in such Table IV-1. At all times the Property includes pallets, boxes, packing material and rigging for such items, provided however, that if the SCO so requests, pallets shall be returned to a particular DRMO.

Property Referral List: As defined in Article 3.

Property Storage Location: As defined in Article 4.

Purchase Transfer: As defined in Article 14.

Purchaser: As defined in Article 1.

Purchaser Liabilities: The total of Purchaser’s liabilities that are determined pursuant to GAAP exclusive of unrepaid Working Capital Advances and Purchase Advances.

Purchaser Systems and Software: As defined in Article 12.

Purchaser Warehouse: As defined in Article 3

Purchaser’s Dedicated Storage: As defined in Article 3.

Purchaser’s Reports: As defined in Article 8.

Quantity Available: As defined in Article 4.

Quarterly Report: As defined in Article 8.

RCP Property: Property at a DLA Depot and designated as such by DRMS.

Records: As defined in Article 8.

Remaining Assets: As defined in Article 21.

Required Retention Fund Balance: As defined in Article 15.

Response: As defined in Article 20.

Restricted Access Facility: Due to host installation restrictions or for other reasons, a particular DRMO or DRMS Warehouse may occasionally and temporarily be unable to provide storage as provided in Section 3 of Article 3 or access as provided in Subsection (1) of Section 4(A) of Article 3. Any such facility that is not reasonably able to provide such storage or access other than occasionally and temporarily shall be deemed a "Restricted Access Facility."

Retention Fund: As defined in Article 15.

Retention Rate: As defined in Article 15.

Retention Trigger Month: As defined in Article 15.

Retention Payment: As defined in Article 15.

R/T/D: The reutilization, transfer and donation of surplus military property that is prescribed by applicable federal law.

Sale by Reference: As defined in Pan VI, "Terms and Conditions of Sale;" see Attachment VI.

Sales Contracting Officer: The individual person accepting the bid in whole or in part on behalf of the Government, and any other officer or civilian employee who is a properly designated Sales Contracting Officer, including, except as otherwise provided in this contract, the authorized representative of a Sales Contracting Officer acting within the limits of the representative's authority.

Sales Deposit Account: As defined in Article 13.

SCO: As defined in Article 1.

Scrap: With respect to a particular item of Property, a designation assigned by or with the approval of DRMS personnel meaning that the item has no value other than for its material content.

Seller Indirect Cost: As defined in Article 9.

Segregated R/T/D: As defined in Article 3.

Site Location Code: As defined in Article 4.

Special Situation Locations: Locations that are designated as Delivery Points by DRMS in the exercise of its sole discretion and that are neither a DRMO, a DRMS Warehouse, nor a Purchaser Warehouse.

Storage Location Code: As defined in Article 4.

Termination: As defined in Article 19.

Third Party Software: As defined in Article 12.

Transfer Account: As defined in Article 13.

Upgrade Upon Receipt: As defined in Article 6.

Useable: With respect to a particular item of Property, a designation assigned by or with the approval of DRMS personnel meaning that the item has value in excess of that of the item's material content.

User Documentation: As defined in Article 12.

Wind-Up Commencement Date: As defined in Article 21.

Working Capital Advance: As defined in Article 13.

Working Capital Advance Balance: As defined in Article 13.

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ALL COMMUNICATIONS SHOULD INCLUDE THE CONTRACT NUMBER SHOWN IN BLOCK 5 BELOW

NOTICE OF AWARD, STATEMENT, AND RELEASE DOCUMENT 1. PAGE 01 OF

2. FROM: (Name and address of Sales Office)
 DEFENSE REUTILIZATION & MARKETING SERVICE
 NATIONAL SALES OFFICE
 74 N. WASHINGTON
 BATTLE CREEK MI 49017-3092

3. DATE OF AWARD
 06/09/05
 4. INVITATION NO.
 99-4001 (TERM)
 5. CONTRACT NO.
 99-4001-0004

6. TO: (Name and address of Purchaser)

LIQUIDITY SVC INC
 2131 K ST NW 4TH FLOOR
 WASHINGTON DC 20037

Phone FAX

7. BIDDER NO.
 3001287933

8. (PAID STAMP)

 (For Release of Property Only)

This is to inform you that your firm has been awarded a contract of sale for the following materials as a result of the above numbered invitation to Bid.

9. PROPERTY MUST BE REMOVED BY (Final date of removal)

10. **SURPLUS AND/OR EXCHANGE/SALE ITEMS**

ITEM NO.	DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	TOTAL PRICE	QUANTITY RELEASED
a	b	c	d	e	f	g

PLEASE SEE ITEM DESCRIPTION FOR LOCATION (ESTIMATED)
 BATTLE CREEK, MI 49017

01	METALLIS AND NON-ME	*****		LB	0.0001	210,082.19
----	---------------------	-------	--	----	--------	------------

Billings will be monthly.
 DURATION: From 06/09/05 To 06/08/12

The following Bid Deposit is required prior to first removal and will be held for duration of contract. Bid Deposit will be applied to last payment on contract

Item 0001 \$20,000.00

11. **RELEASE**
 An agent of the purchaser obtaining release of the material must present purchaser authorization.

A. I HAVE RECEIVED THE ABOVE LISTED MATERIALS IN THE QUANTITY INDICATED AND HAVE ACCEPTED SAME IN

12. **STATEMENT OF ACCOUNT**
 Payment of amount due the U.S. Government must be made prior to removal of any material. Refer to the IFB for all methods of acceptable payment

A. TOTAL CONTRACT PRICE	\$	210,082.19
B. LESS DEPOSIT	\$	

COMPLIANCE WITH THE TERMS OF ABOVE
NUMBERED CONTRACT.

C. BALANCE DUE

\$

**TYPED OR PRINTED NAME AND
SIGNATURE OF PURCHASER OR
AUTHORIZED AGENT**

D. REFUND DUE

\$

B. RELEASED BY (*Signature*)

E. STORAGE CHARGES

\$

C. DATE

D. VOUCHER NO.

F. PAYMENT RECEIVED

\$

G. REFUND MADE

\$

13. SALES CONTRACTING OFFICER (*Typed or
stamped name and signature*)

/s/ GREGORY E. ORTIZ

GE

(Previous edition to be used until exhausted.)

DRMS FORM 1427 AUG 98

IMPORTANT NOTICE ON REVERSE



**MULTI-YEAR SALE OF SURPLUS SCRAP MATERIAL
AT LOCATIONS NATIONWIDE**

DEFENSE REUTILIZATION AND MARKETING SERVICE

**INVITATION FOR BIDS
NO. 99-4001**

STEP TWO OF TWO - STEP SOLICITATION

**BIDS ARE DUE WITH BID DEPOSITS AT 9:00 AM ON
TUESDAY, DECEMBER 7, 2004**

MULTI-YEAR SALE OF SCRAP AT LOCATIONS NATIONWIDE

**INVITATION FOR BIDS
No. 99-4001**

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 - (B) Attempted Transfer
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 - (A) Relationship of Parties
 - (B) Parties to Contract
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 - Section 11. Replacement Contractor
 - ARTICLE TWO. PERFORMANCE PERIOD; EARLY CANCELLATION OPTION; DRMS OPTION TO EXTEND
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Section 2. Explanation of Terms. As used in this clause—
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- (C) “Failure to make a good faith effort to comply with the small business sales plan”
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- (A) [Incentive 1](#)
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- Section 3. Property Storage; Delivery of Property to Purchaser and Passage of Title
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MULTI-YEAR SALE OF SCRAP AT LOCATIONS NATIONWIDE

INVITATION FOR BIDS

No. 99-4001

I. STEP TWO OF TWO-STEP SEALED BIDDING

This Invitation For Bids (IFB) is issued to initiate Step Two of two-step sealed bidding. The only bids that the DRMS Sales Contracting Officer (“SCO”) may consider for award of a contract are those received from bidders that have submitted acceptable technical proposals in Step One of this solicitation under RFTP 99-4001.

The Key Personnel designations in the successful bidder’s technical proposal shall be incorporated into any contract awarded in response to this IFB. ***In all other respects, the provisions of this IFB shall govern the contract contemplated hereby without regard to assumptions, plans, forecasts, conditions or any other matters set forth in any prospective bidder’s technical proposal submitted in Step One.***

Instructions and forms for submitting a bid are set forth in the accompanying “Bidding Instructions and Bid Forms.” Your Bid Forms and Bid Deposit in the form of immediately available funds (credit card, cashier’s check or money order) payable to US Treasury in the amount of Twenty Thousand Dollars (\$20,000) must be delivered to and received by DRMS before the bid opening at 9:00 a.m. EST on Tuesday, December 7, 2004. Address your Bid Forms and Bid Deposit to:

Defense Realization and Marketing
Service (DRMS)
Federal Center, Room 2-4-4
74 Washington Avenue N.
Battle Creek, MI 49017-3092
ATTN: Mr. Greg Ortiz

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II. GENERAL STATEMENTS OF CONTRACT TERMS

Certain of the contents and provisions of Parts III through VI of this IFB, including Appendices, Attachments and Schedules, are described in general and summary terms in this Part II. Statements in this Part II as to such contents and provisions are not intended to be complete. Reference is made to such contents and provisions for a complete description of the matters involved, and each such statement shall be deemed qualified in its entirety by such reference.

A. INTRODUCTION

The structure of the sales described in this IFB are similar in many pertinent respects to the earlier sale contracts for surplus usable property that were awarded by DRMS in July of 1998 to Levy/Latham LLC, and in June of 2001 to Surplus Acquisition Venture, LLC. Those sales are called the DRMS “Commercial Ventures” or “CVs.” As is described more specifically below, the CV-type structure is a “pipeline” sale, so named because the successful bidder pre-commits to purchase all of certain types of property that emerge from the DRMS “pipeline” at designated DRMS locations over a specified period of time. As is also described more specifically below, the CV-type structure is also a “net proceeds sharing sale” in that the successful bidder is obligated to share with DRMS a portion of the net proceeds realized from the re-sale of the property after deducting all of the costs of managing, transporting, protecting, improving and marketing the property. The CV-type sale structure is based upon a design originally developed for Resolution Trust Corporation and that RTC implemented in its largest and most successful asset sale transactions.

This IFB for the DRMS “Scrap Venture” or “SV” sale concerns almost all “Scrap” material (as is more completely described in Section B below) that is designated as such by DRMS and that emerges from the DRMS “pipeline” at DRMS Scrap Yards(1) and at other locations in the Continental United States (“CONUS”; but excluding locations in the “Control Group” as set forth below), plus locations in Alaska.

All locations within the states of Tennessee, North Carolina, and South Carolina are considered the DRMS Scrap “Control Group.” All sites in the Control Group will employ traditional sales methods and are presently excluded from this Scrap Venture initiative. As set forth below, DRMS plans to conduct a 24-month review of the results of Scrap operations within the Control Group and may determine to combine the three-state Control Group into this SV sale transaction.

The pertinent Scrap material is categorized as subject either to a DEMIL Code of “A,” “B,” “E” or “Q,” or to “DEMIL as a Condition of Sale” (see Section W below). As is the case in both CV sales, SV excludes Hazardous Material, Hazardous Waste, material in certain Scrap

(1) DRMO Scrap Yards are listed in Part VII at Attachment IV.

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The successful offeror that is awarded the SV sale contract is termed the "Contractor." The Contractor is required to establish a single-purpose Subchapter S corporation or limited liability company, termed the "Purchaser," to perform the contract.

Described very generally, under this proceeds-sharing sale contract structure, the Contractor pays to DRMS *at the time that the contract is awarded* a single "Bid Price" equal to the Contractor's bid. In addition, the Contractor will provide funds to the Purchaser to enable the Purchaser to pay to DRMS each calendar quarter the "Quarterly Purchase Price" for the Property. In return, the Contractor is entitled to receive twenty percent (20%) of all Distributions of "Net Proceeds." Net Proceeds equals all revenues obtained by the Purchaser ("Gross Proceeds") less all of the Purchaser's operating costs ("Direct Costs").

B. PRODUCT POOL AND PROPERTY FLOW

The Scrap products sold under this IFB are categorized by Scrap Classification List (SCL) code and DEMIL Code. The included material identified by SCL Code and DEMIL Code constitutes the "Product Pool." (2) Described generally, the Property in the Product Pool is (i) all "Scrap" material, and all items that are subject to "Demilitarization as a Condition of Sale," for which DRMS is accountable, (3) (ii) other than material and items in the list of excluded SCLs (4) and FSCs set forth in Part IV, (5) (iii) with DEMIL Codes "A," "B," "E" or "Q" or that are subject to "Demilitarization as a Condition of Sale," (iv) and a Hazardous Materials Code other than "W" (Hazardous Waste) or "M" (Hazardous Material), (v) that become available in the Continental United States (other than Tennessee and the Carolinas) or in Alaska.

The flow of Property in the Product Pool has varied since 1985. The data exhibited in Figures II-2 through II-17 present the scope of DRMS Scrap transactions in the pertinent geographic area by SCL Group, (6) Term Sales v. Spot Sales, and DEMIL Code (excluding DEMIL

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- (2) Items that are subject to Demilitarization as a Condition of Sale are identified by FSC and by DEMIL Code, but not by SCL.
 - (3) See Section II.C, "Designation of Scrap vs. Useable Items;" see also Section II.J. I, "Resource Recovery and Recycling Program (RRRP)."
 - (4) SCLs D5A, D5B, D5C, D5G, H15, H16, H17, & H18 contain Hazardous Material and are excluded from this sale.
 - (5) In addition to certain FSCs, the sale will exclude SCLs beginning with P or V (precious metals) and SCL B00, B01, B02, B03 and B04 (rubbish, trash or any type of debris scheduled for A/D). The sale of tire material, classified in SCL Codes G01, G02, G03, G04, G05 and GST, wood material, classified in SCL Codes F01 and FSW, and glass material, classified in SCL Code H06, is subject to the provisions of Section 4(K) of Art. 3 to support DRMS solid waste management goals.
 - (6) An "SCL Group" is a grouping of SCL Codes determined by DRMS to have similar market characteristics.

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as a Condition of Sale). (7) *These data, and other data presented herein, are derived using sources that DRMS believes are reliable, but DRMS cannot guarantee the accuracy of such data. Prospective offerors should note that DRMS cannot predict either the volume of items that the Purchaser will sell, or the revenues obtainable therefrom, or whether the revenues from the disposition of Scrap will exceed the costs thereof. Each prospective offeror, therefore, must account for this risk in its bidding. DRMS expressly disavows any implicit prediction, projection or suggestion to the contrary.*

Three primary descriptive variables are of interest in DRMS historical data:

- (1) Weight (in pounds)
- (2) Gross Proceeds (in dollars)
- (3) Gross Proceeds per Pound.

Figures II-2 through II-4 summarize DRMS Scrap data for these variables for Fiscal Years 1985-2003. (Figure II-1 is reserved and is not used in this IFB.) These three measures, plus the associated proportions expressed as percentages for Weight and Gross Proceeds, are exhibited repeatedly throughout the figures in the following dimensions:

- by SCL Group (Figs. II-5 through II-7)
- by Sale Type (Figs. II-8 through II-12)
- by DEMIL Code (Figs. II-13 through II-17).

Figures II-5 through II-7 show Scrap sales by SCL Group for the three primary variables. Nine SCL Groups are shown:

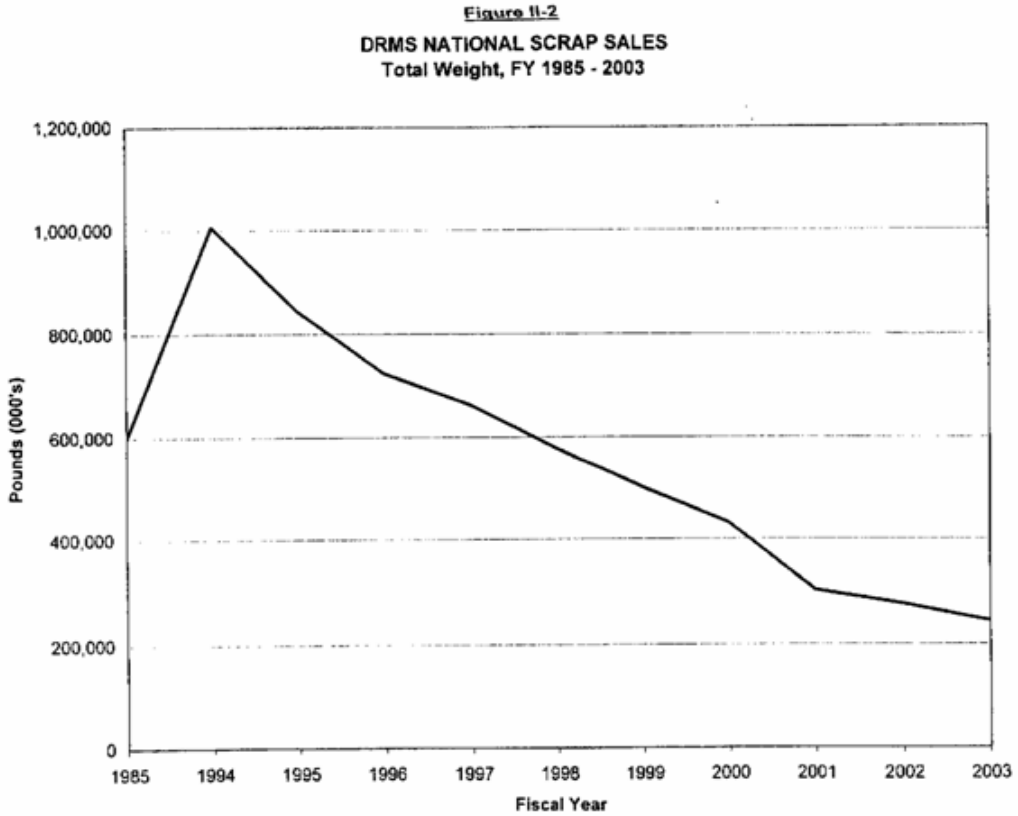
- (1) Aluminum
- (2) Brass and Copper
- (3) Steel and Iron
- (4) High Temp Alloys
- (5) Stainless Steel
- (6) Paper
- (7) Other (Metallic)
- (8) Other
- (9) Misc. Scrap, Not Otherwise Classified (SCL Code H13).

Each SCL Group is composed of individual SCL Codes. (This mapping is detailed in Part IV, Table IV-1(a).) The SCL Codes were assigned to SCL Groups in such a way as to reduce the variability in Gross Proceeds and Proceeds per Pound within each Group.

(7) These data include all DRMS sales of "Scrap" material included in this SV sale in CONUS (excluding Tennessee and the Carolinas), plus the non-CONUS facilities as noted above in Section A. These data generally understate the total weights and sales revenues pertinent to this SV sale by excluding Demilitarization as a Condition of Sale material. These items generally account for an additional 5% to 15% measured by Gross Proceeds. See Table II-9 in Section W, "Demilitarization," for these estimates.

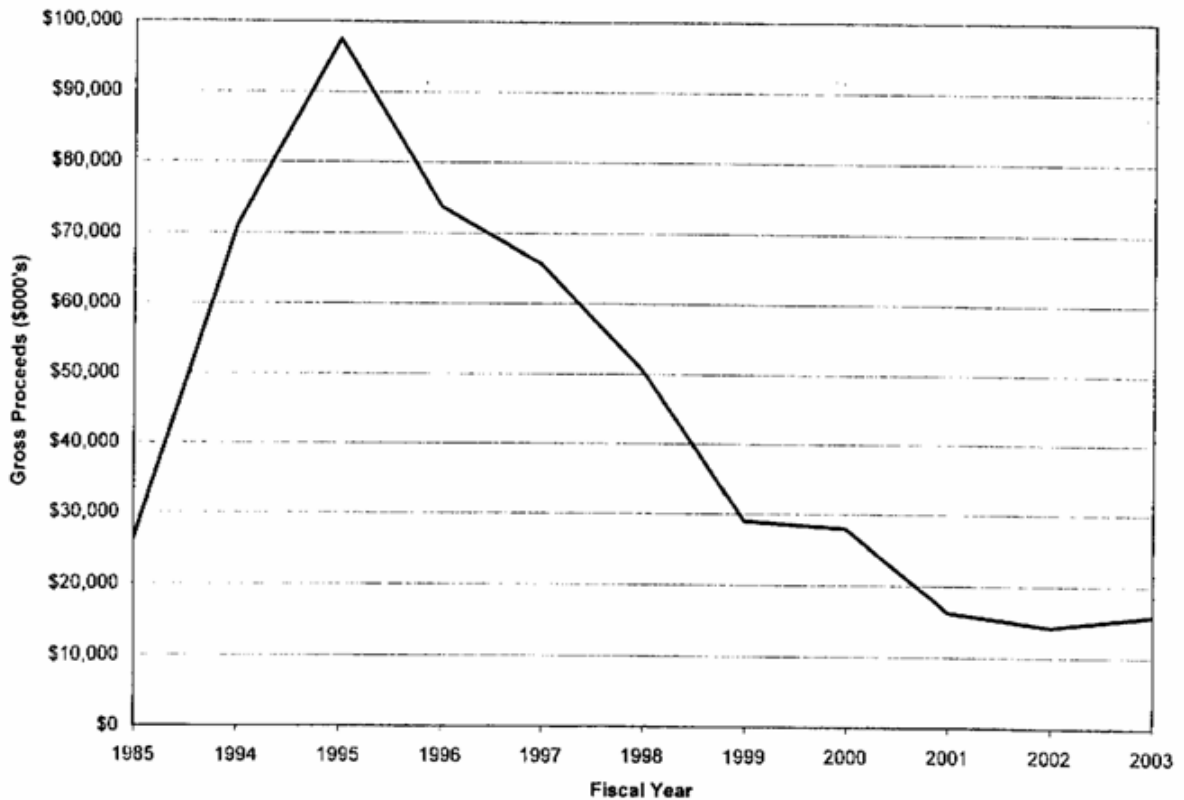
4

Figure II-2
DRMS NATIONAL SCRAP SALES
Total Weight, FY 1985 - 2003



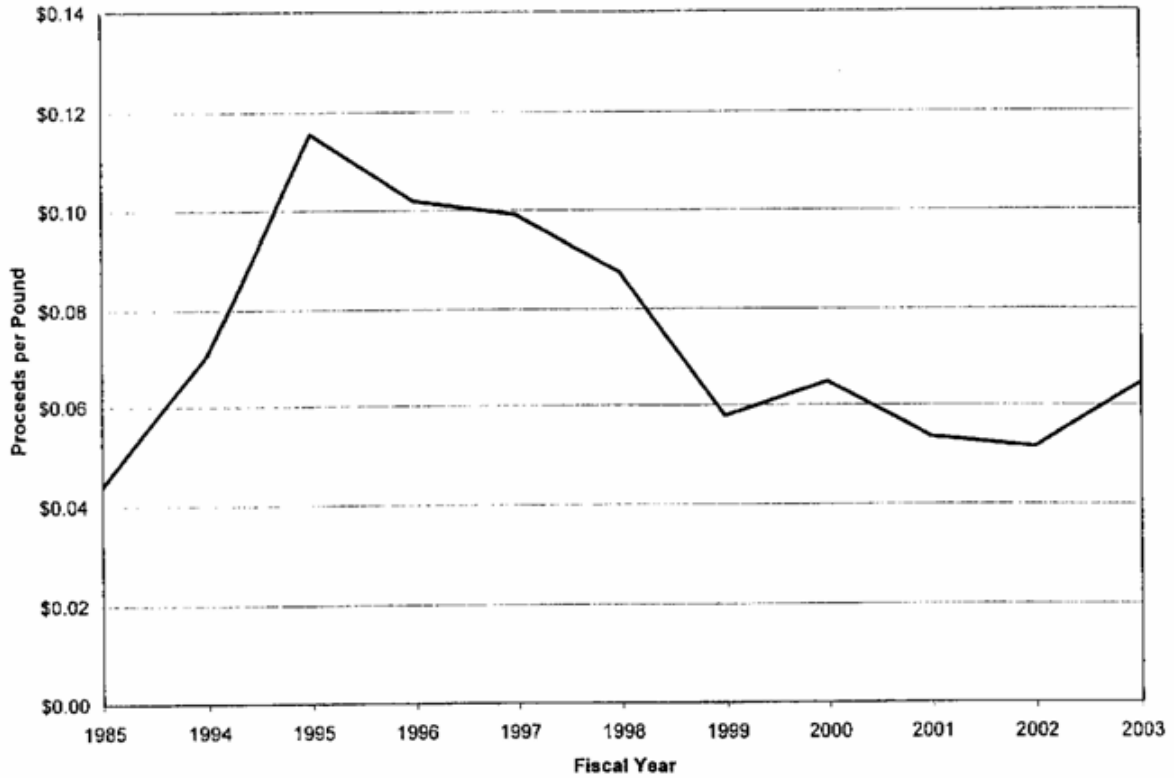
4.1

Figure II-3
DRMS NATIONAL SCRAP SALES
Gross Proceeds
National Total, FY 1985 - 2003



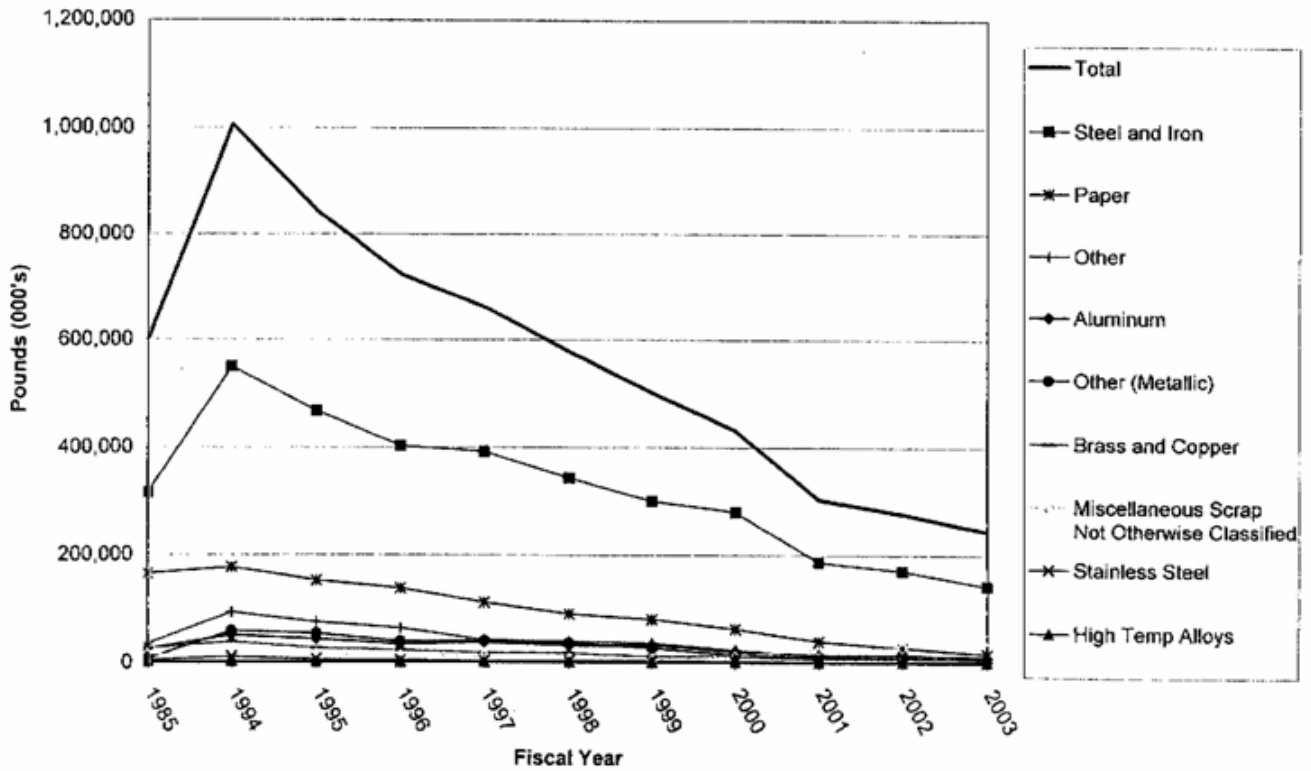
4.2

Figure II-4
DRMS NATIONAL SCRAP SALES
Proceeds per Pound
FY 1985 - 2003



4.3

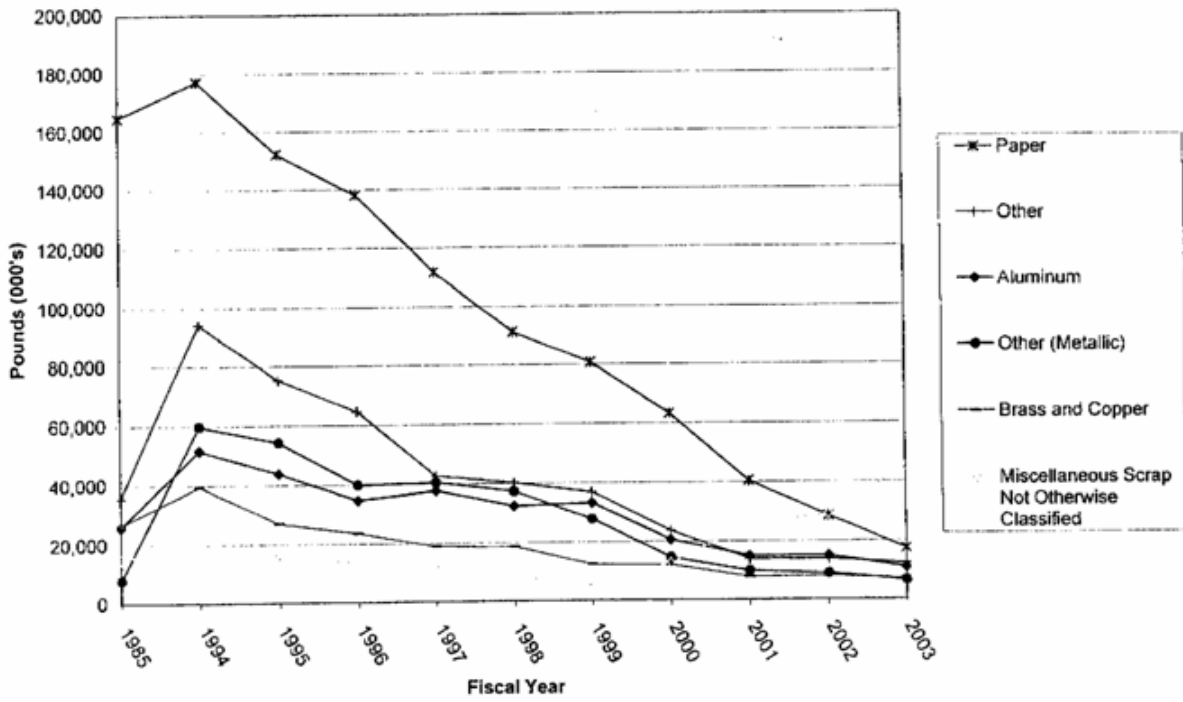
Figure II-5(a)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Total Weight and Weight by SCL Group
All SCL Groups



4.4

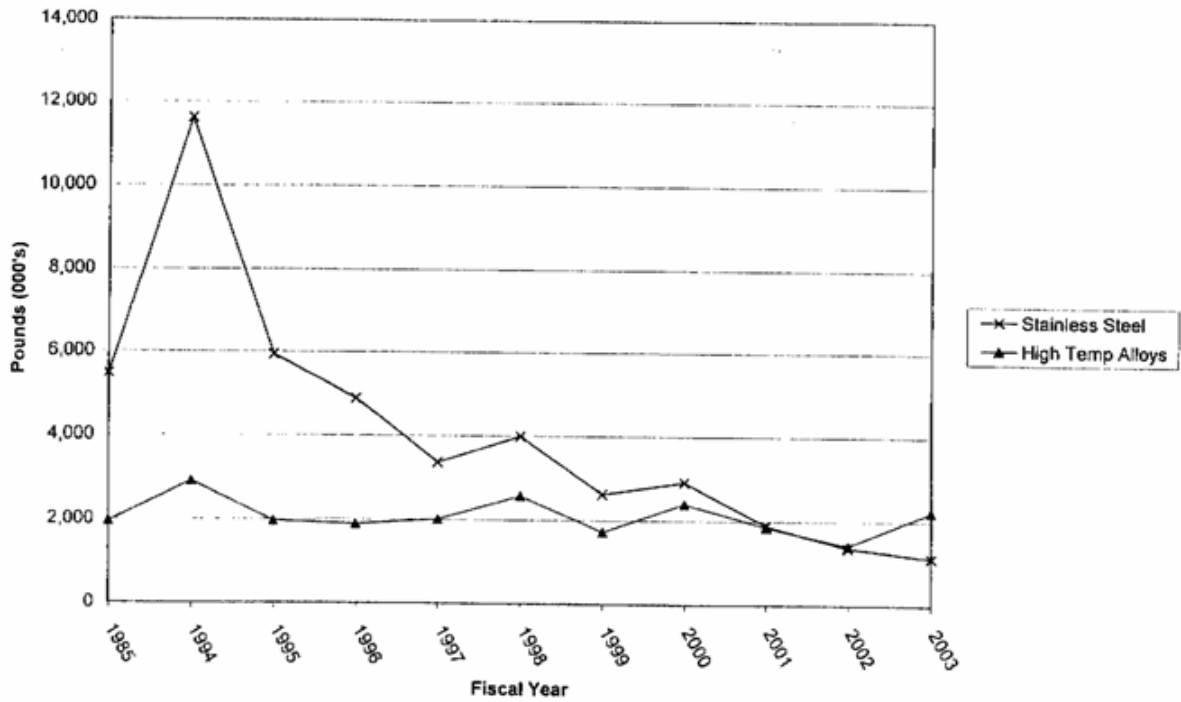
Figure II-5(b)

**DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Total Weight and Weight by SCL Group
Selected SCL Groups**



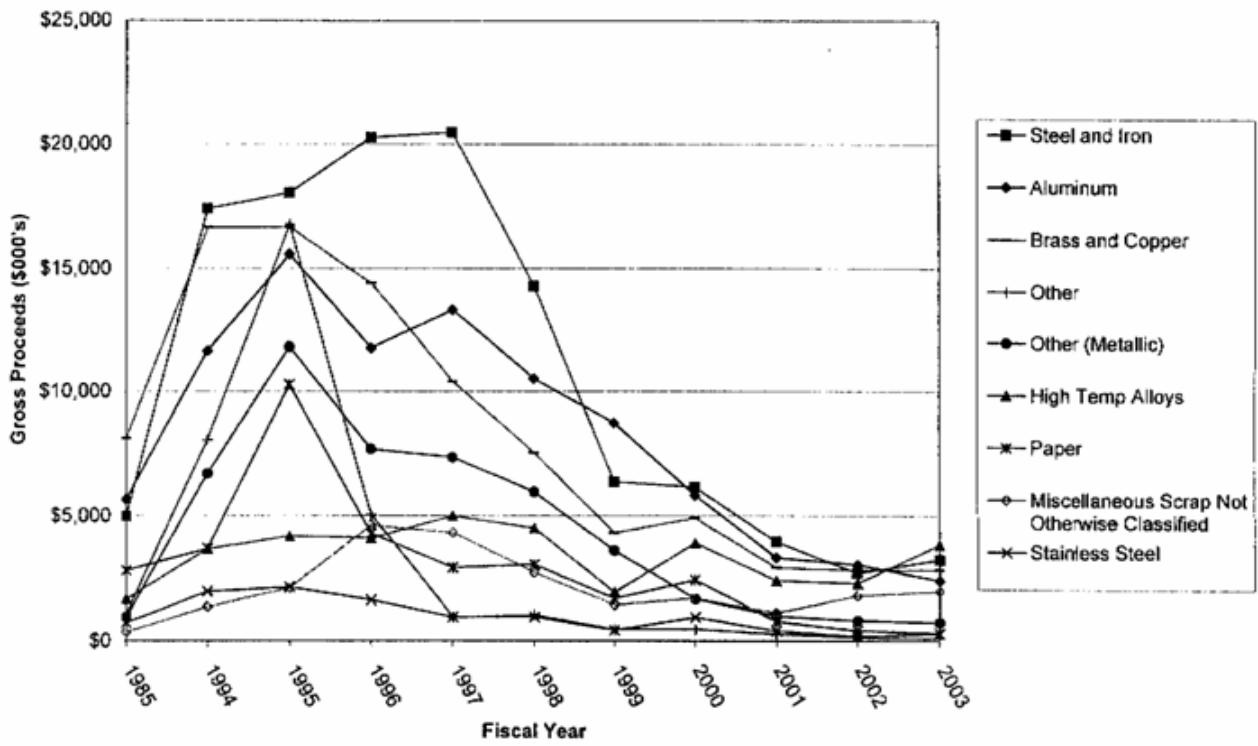
4.5

**Figure II-5(c)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Total Weight and Weight by SCL Group
Selected SCL Groups**



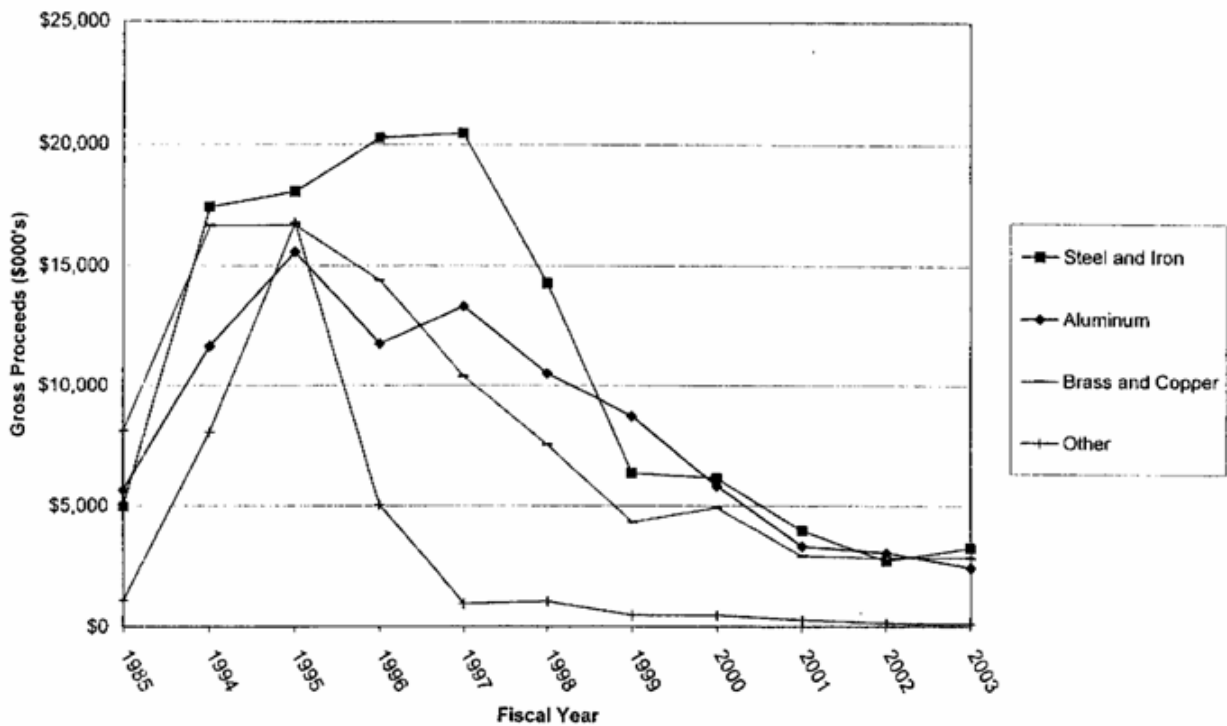
4.6

**Figure II-6(a)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Gross Proceeds by SCL Group
All SCL Groups**



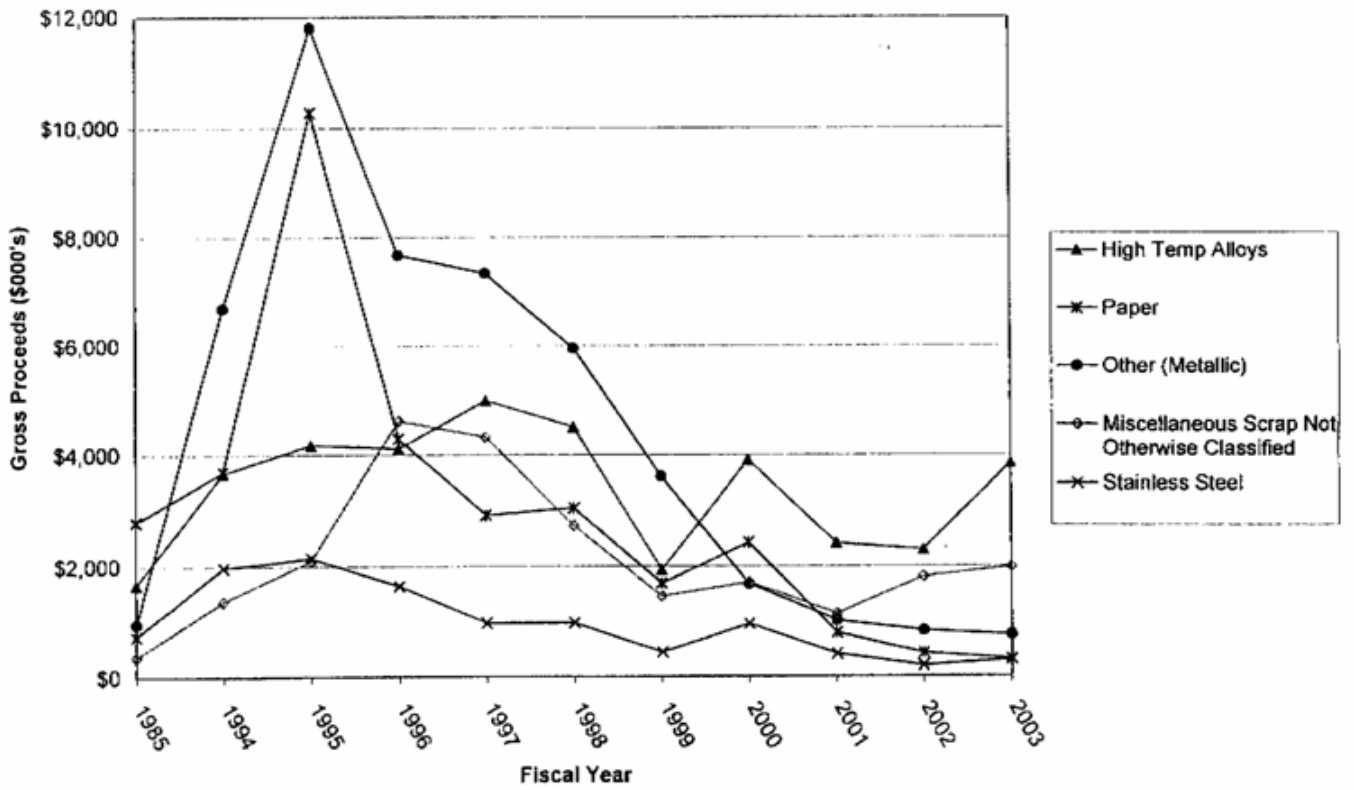
4.7

Figure II-6(b)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Gross Proceeds by SCL Group
Selected SCL Groups



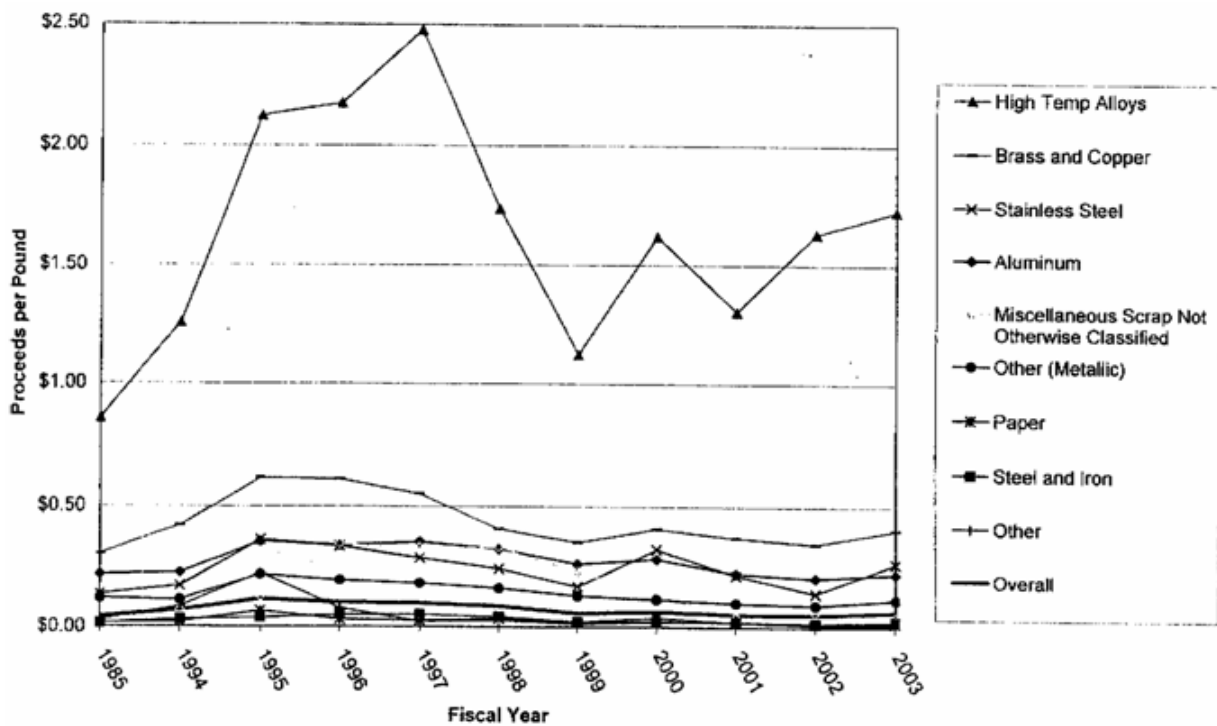
4.8

Figure II-6(c)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Gross Proceeds by SCL Group
Selected SCL Groups



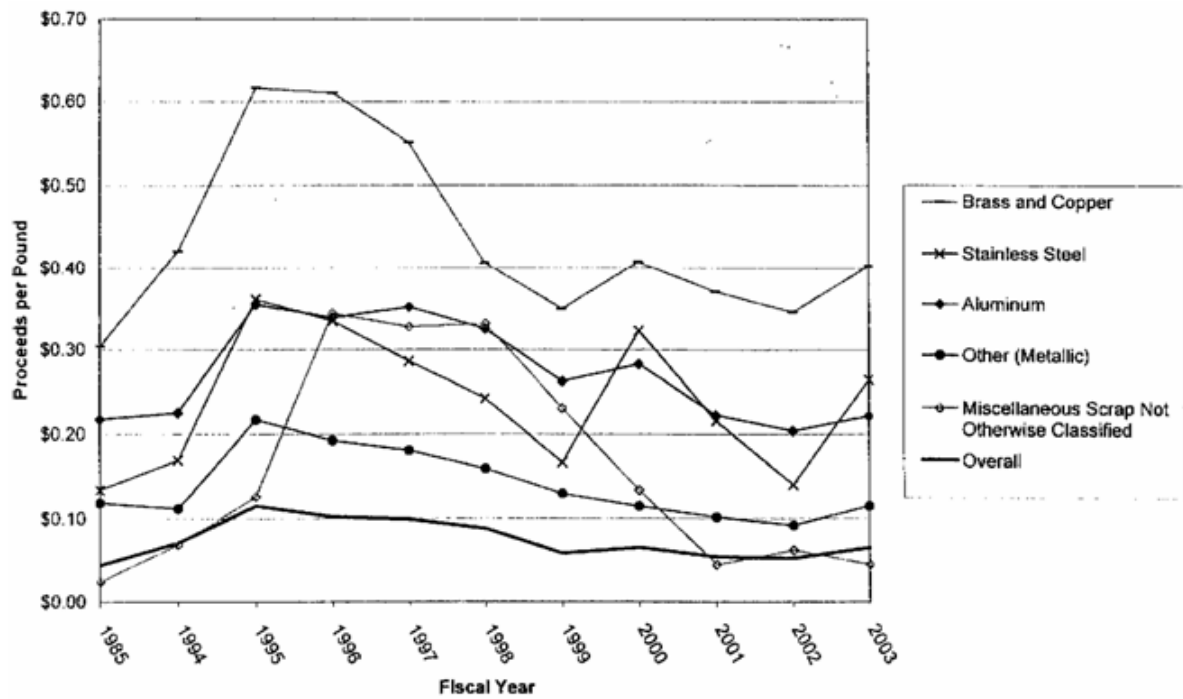
4.9

Figure II-7(a)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Proceeds per Pound by SCL Group
All SCL Groups



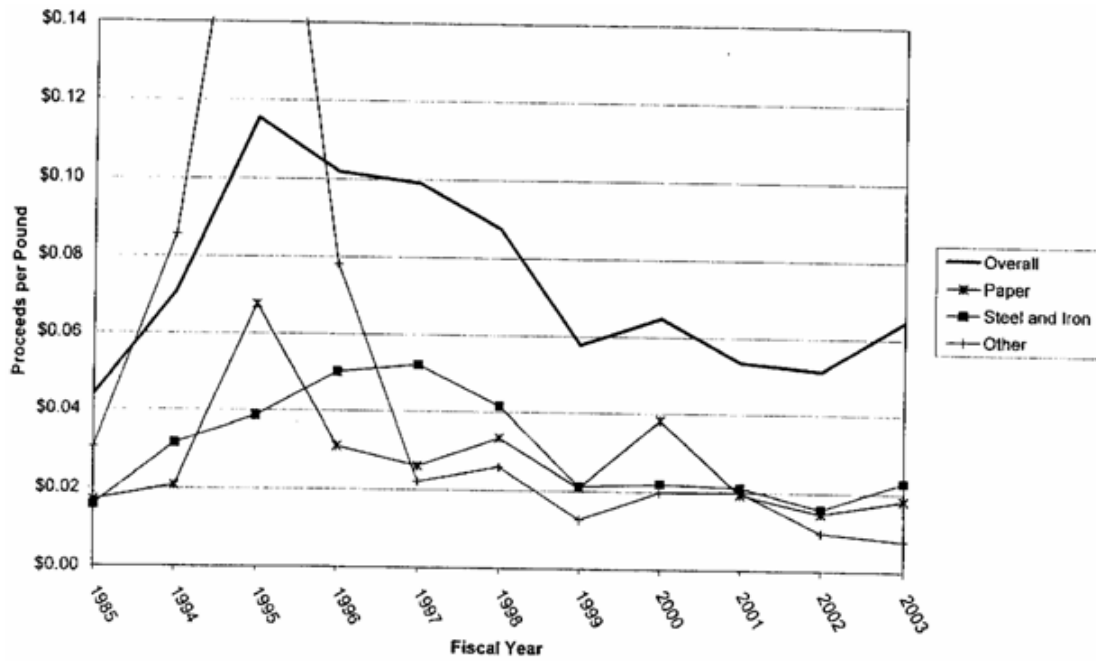
4.10

Figure II-7(b)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Proceeds per Pound by SCL Group
Selected SCL Groups



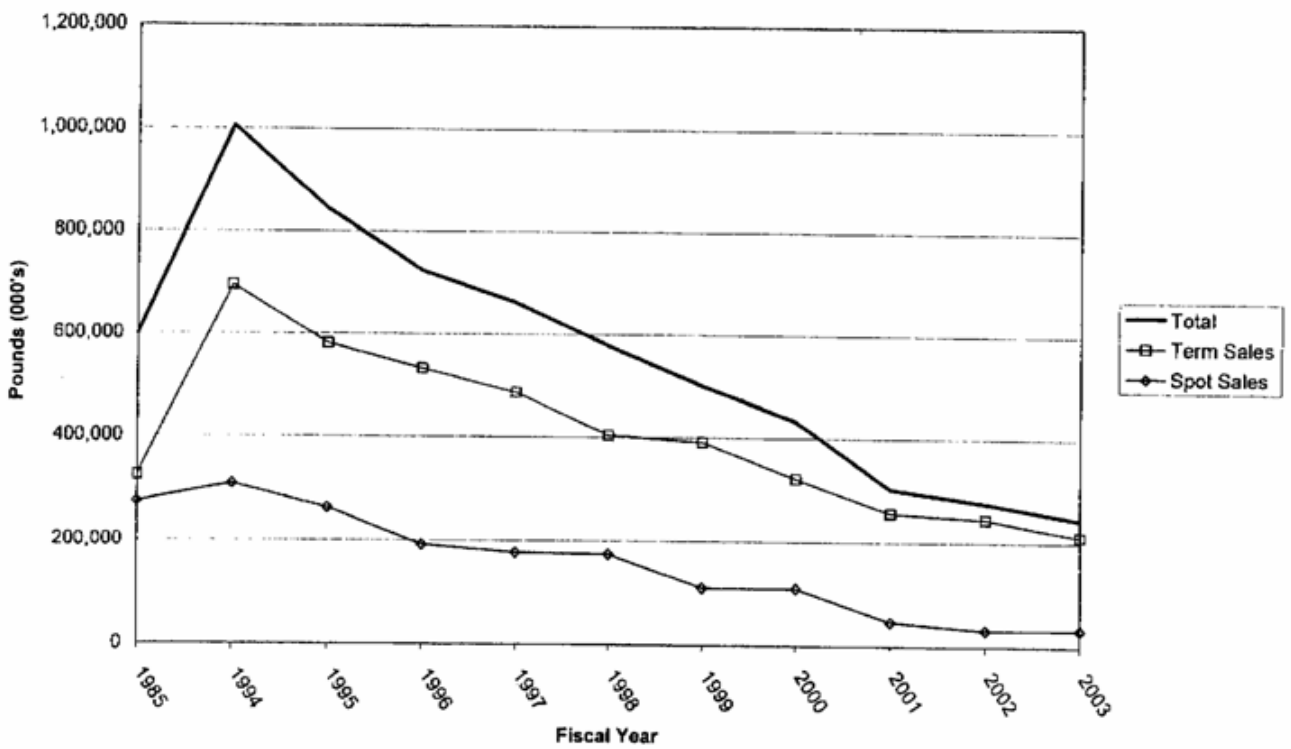
4.11

Figure II-7(c)
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Proceeds per Pound by SCL Group
Selected SCL Groups



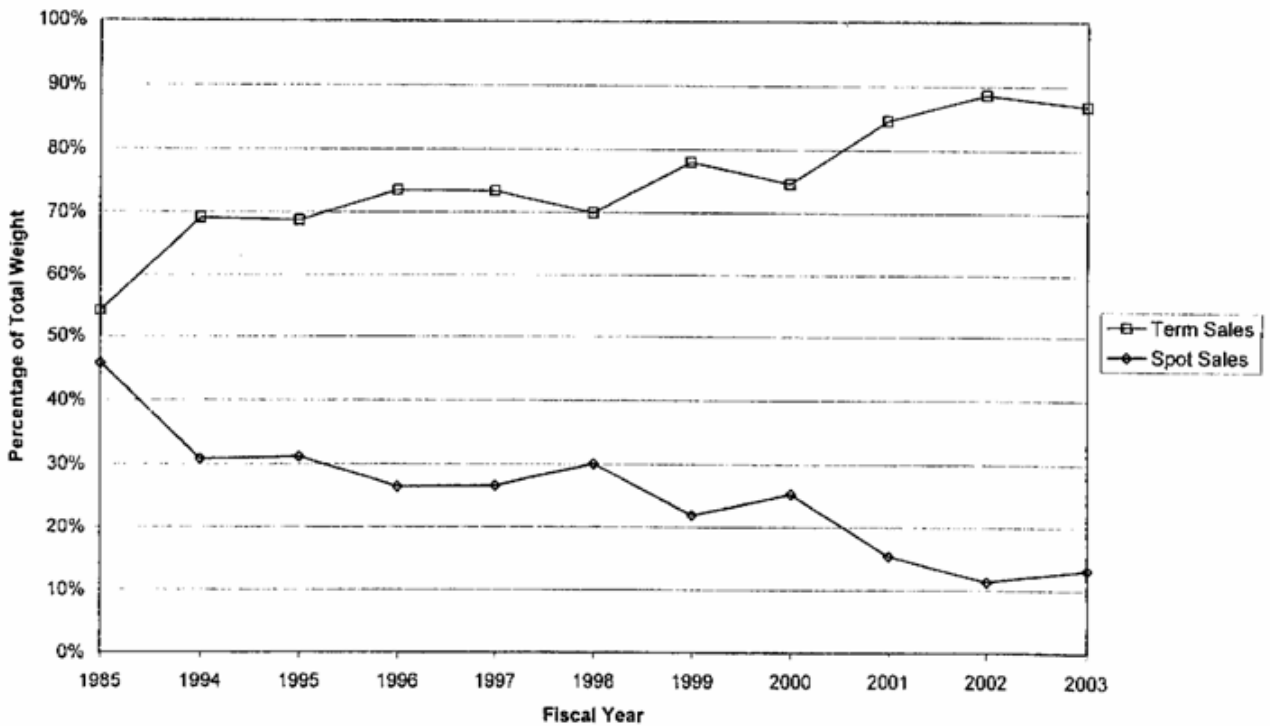
4.12

Figure II-8
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Total Weight and Weight by Sale Type
(Spot or Term)



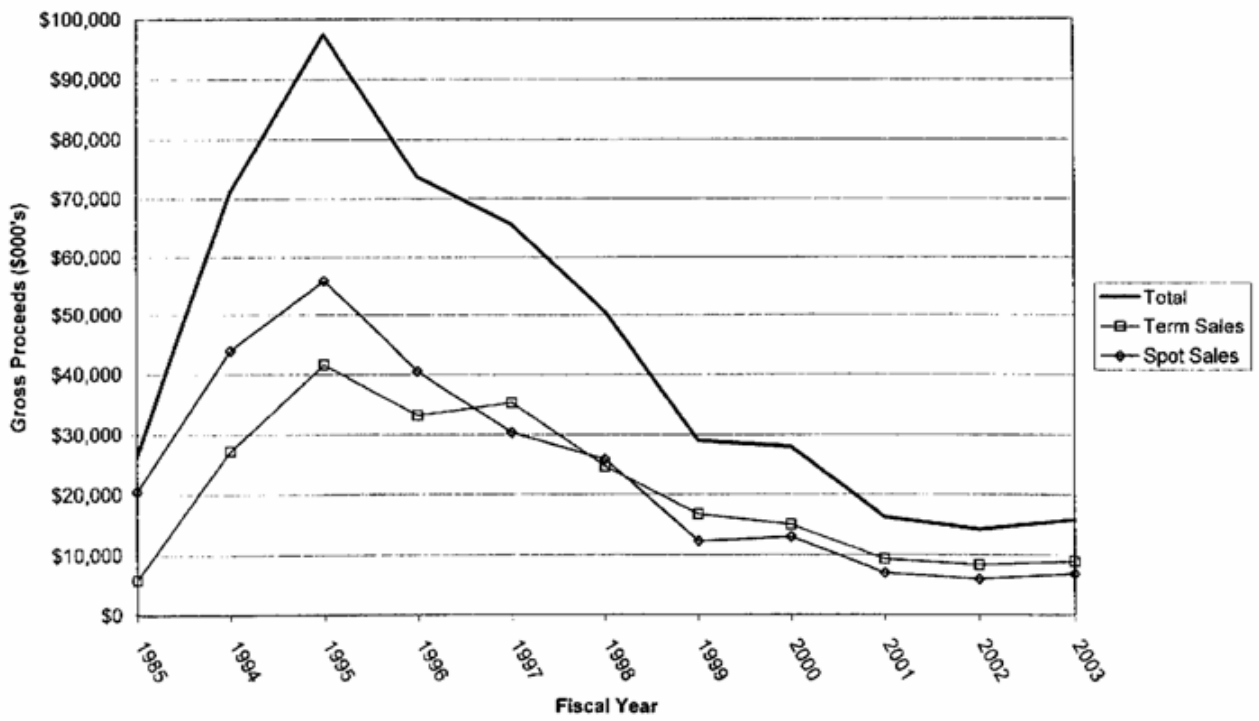
4.13

Figure II-9
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Percentage of Total Weight by Sale Type
(Spot or Term)



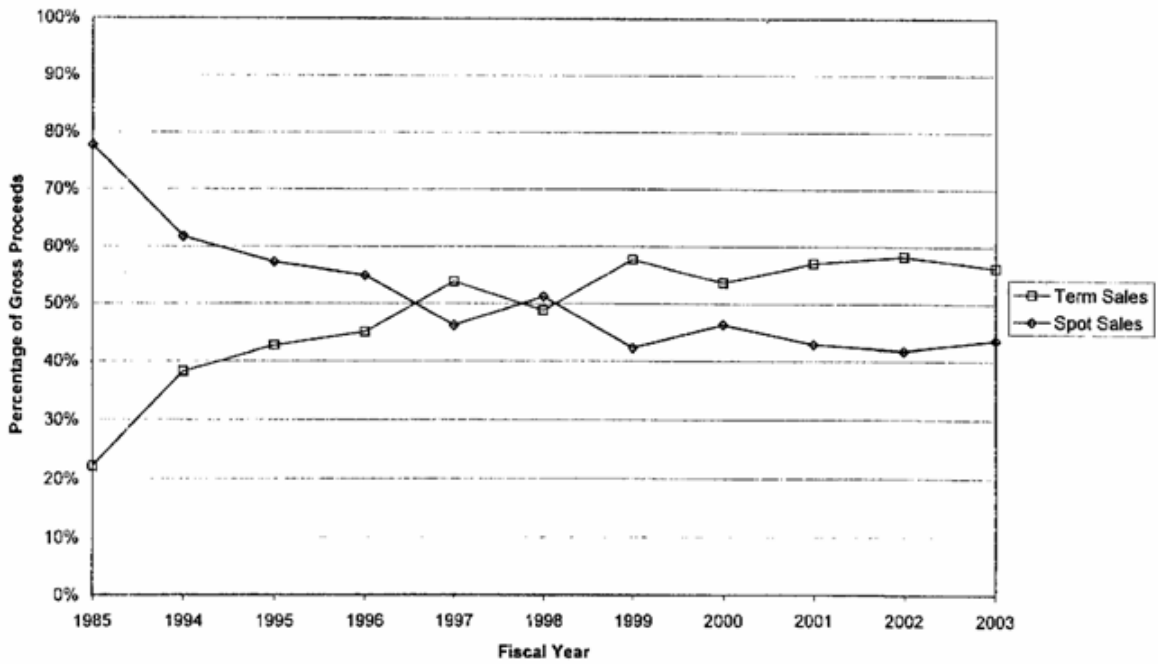
4.14

Figure II-10
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Gross Proceeds - Total and by Sale Type
(Spot or Term)



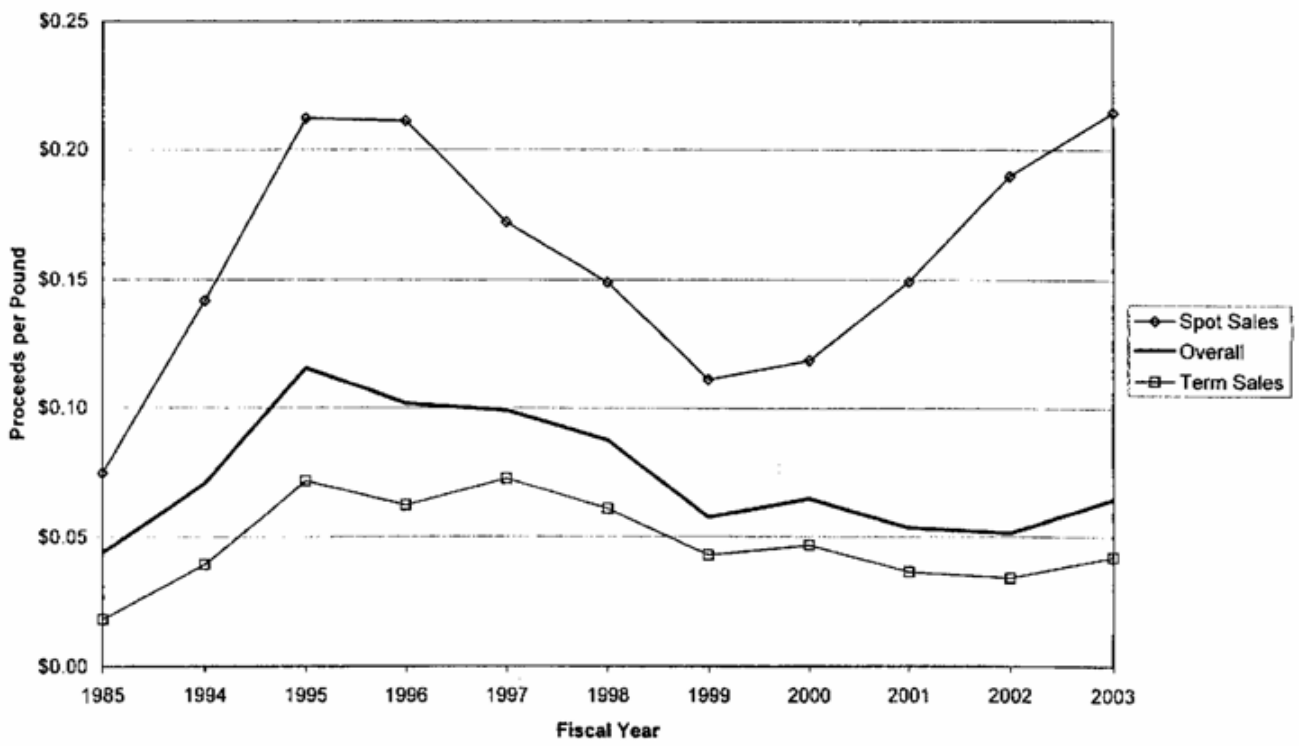
4.15

Figure II-11
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Percentage of Gross Proceeds by Sale Type
(Spot or Term)



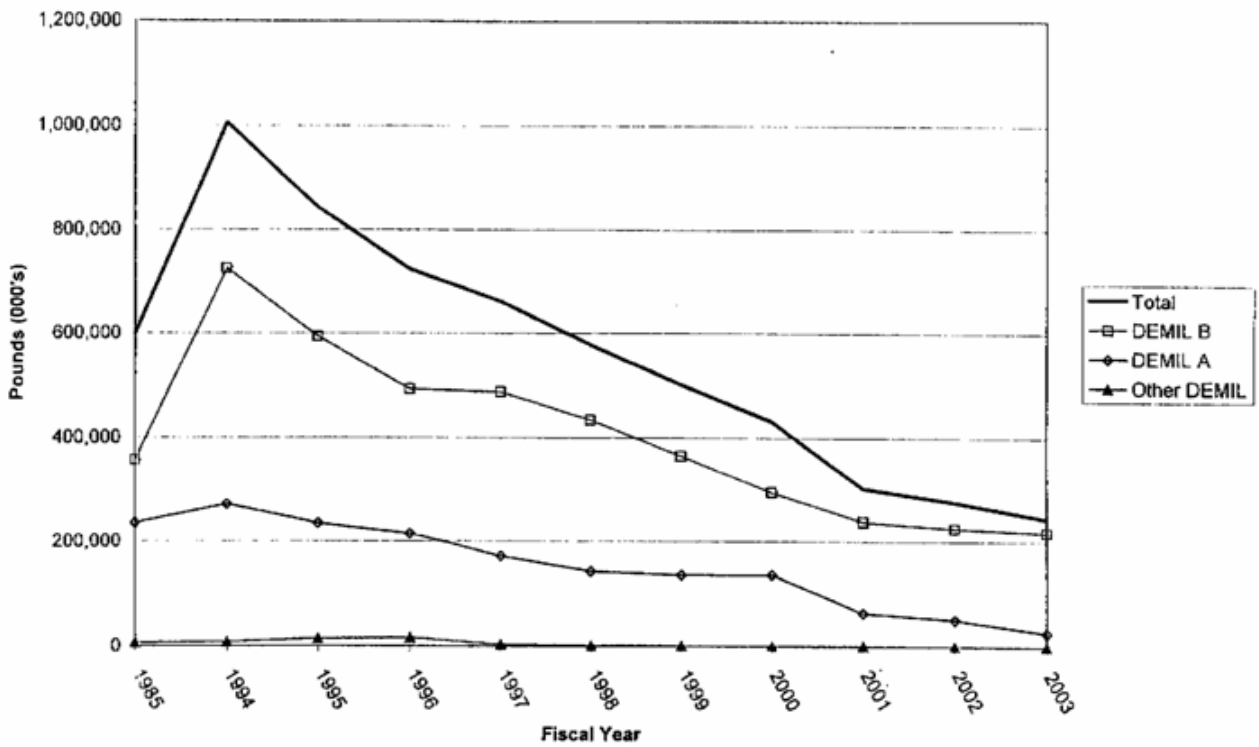
4.16

Figure II-12
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Proceeds per Pound by Sale Type
(Spot or Term)



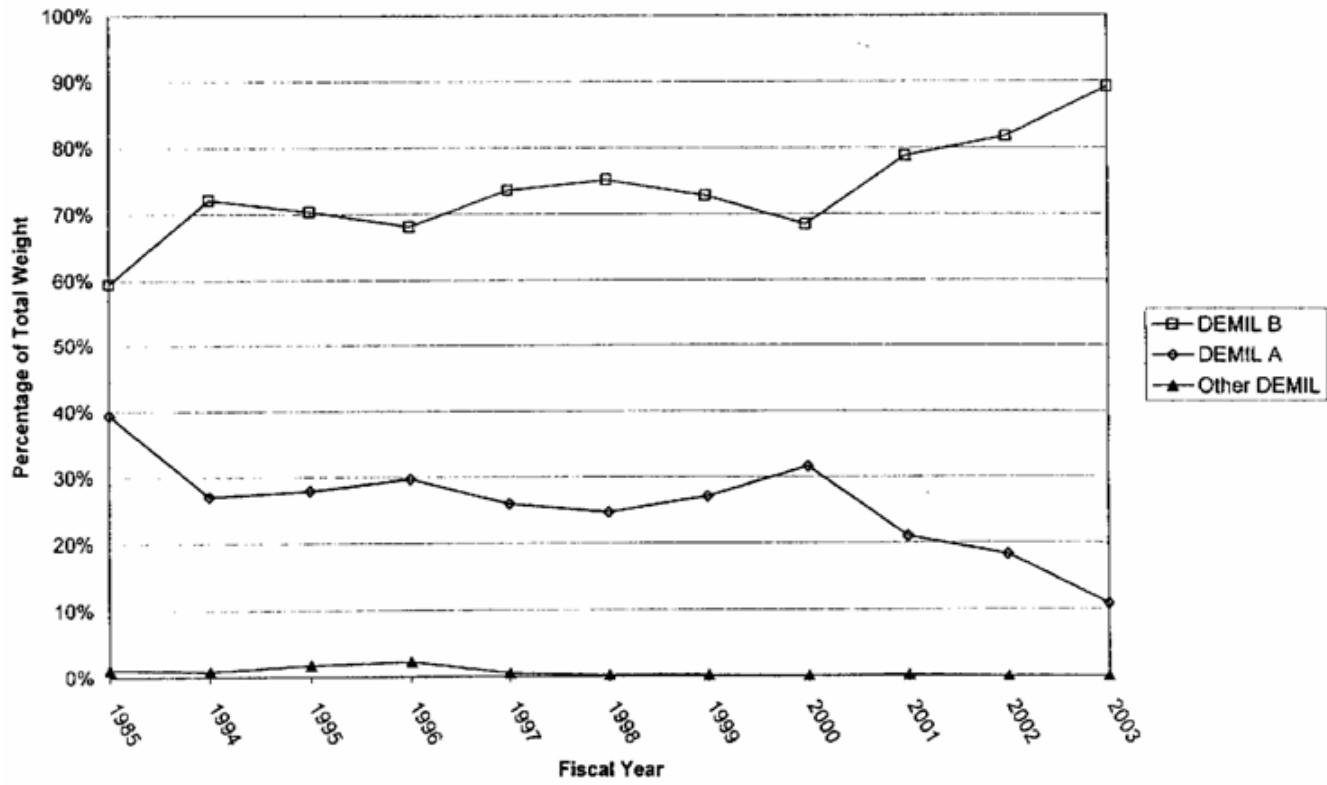
4.17

Figure II-13
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Total Weight and Weight by DEMIL Code



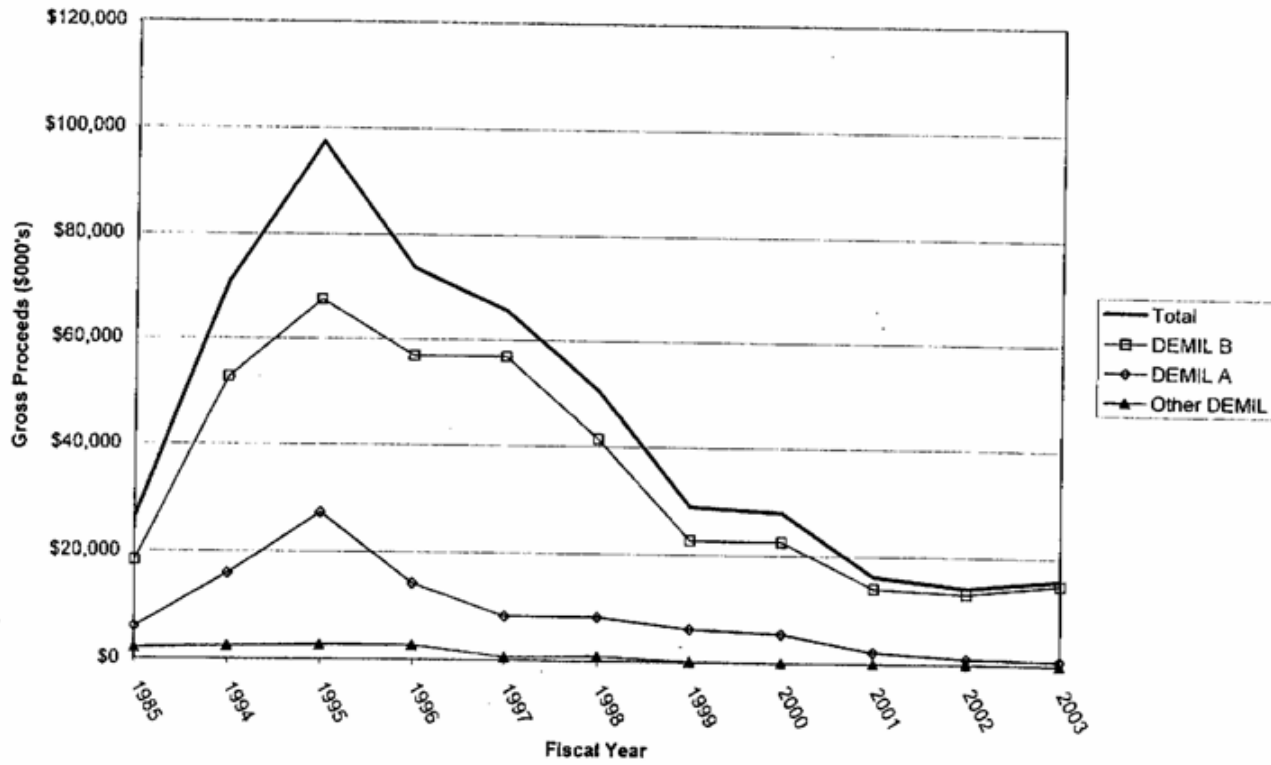
4.18

Figure II-14
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Percentage of Total Weight by DEMIL Code



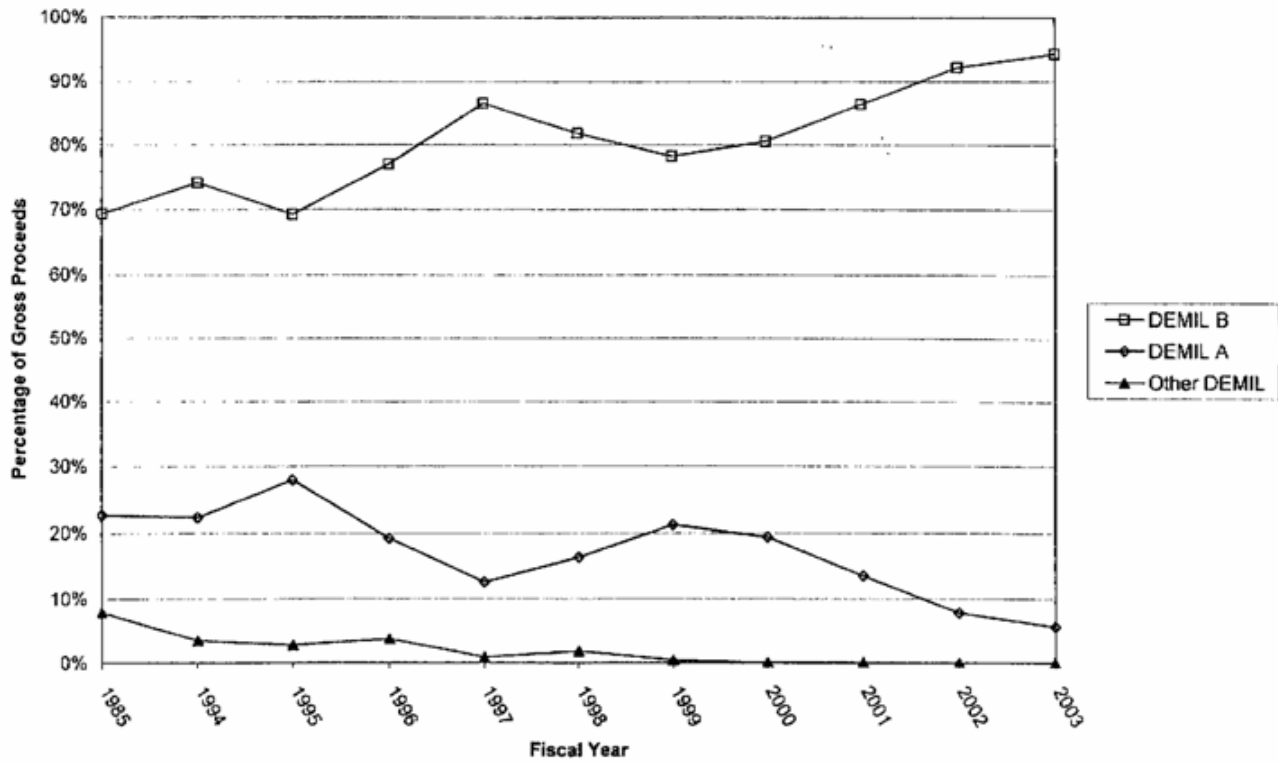
4.19

Figure II-15
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Gross Proceeds - Total and by DEMIL Code



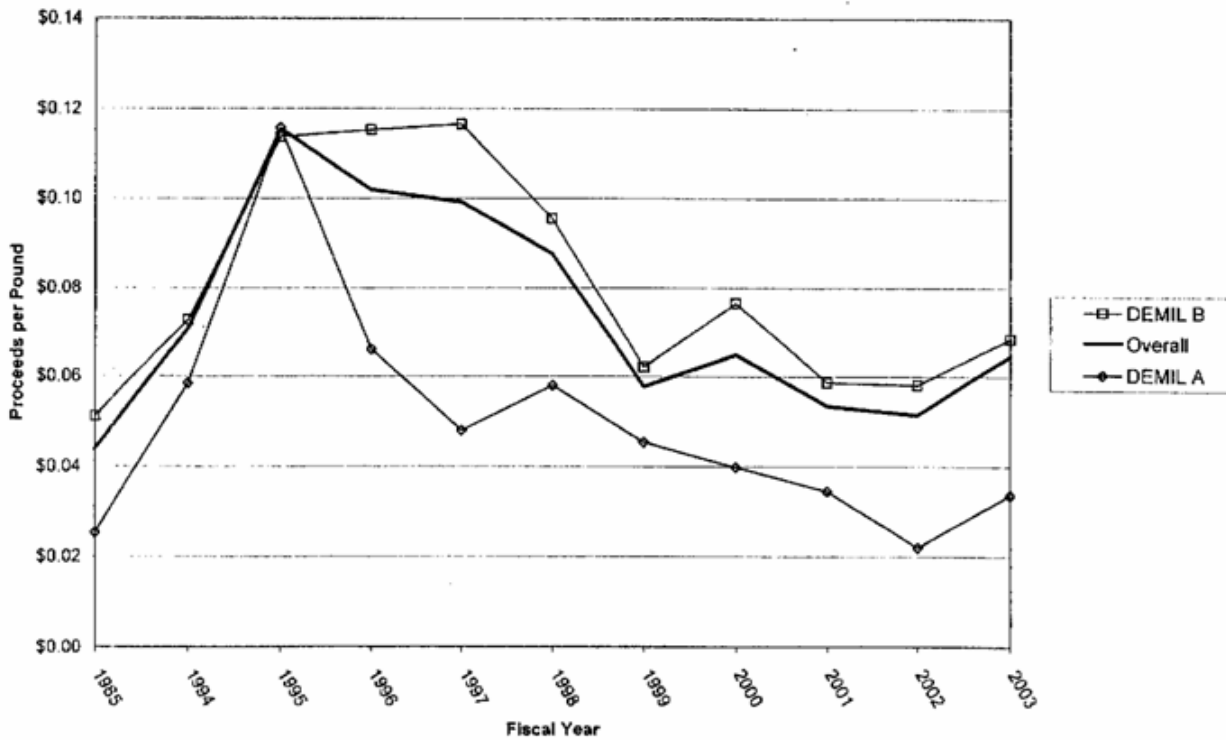
4.20

Figure II-16
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Percentage of Gross Proceeds by DEMIL Code



4.21

Figure II-17
DRMS NATIONAL SCRAP SALES
FY 1985 - 2003
Proceeds per Pound by DEMIL Code (Excluding "Other")



4.22

Notice that Figures II-5 through II-7 are exhibited using a "zoom" technique. That is, they focus at the broadest level (where the largest SCL Groups dominate) in the first figure, and then increase their focus in successive figures until the smallest SCL Groups dominate. For example, Figure II-5(a) shows all nine SCL Groups, no matter how large or small the volume; Figure II-5(b) shows a subset of these with moderate volumes (close up); and Figure II-5(c) shows the subset of these with the smallest volumes (close up even further).

Figures II-8 through II-12 present Scrap sales by Sale Type. Spot Sales (non-Term Sales) are shown relative to Term Sales (those involving time-period contracts). This distinction indicates the market conditions and institutional norms effecting DRMS's transactions.

Figures II-13 through II-17 show Scrap sales by DEMIL Group. For example, Figure II-16 shows that DEMIL Groups "A," "B," and "Other" have maintained relatively stable shares of Gross Proceeds with respect to each other over the years.

Throughout the Performance Period of the contract, DRMS will have the contractual obligation to refer **all** such Property on DRMS records for purchase under the contract. The initial Performance Period is eighty-four (84) months, but DRMS may elect to exercise options to extend the Performance Period for up to an additional thirty-six months.

The Purchaser will have the exclusive right to purchase **all** of the flow of such Property, and DRMS will not be able to divert any such Property to another buyer. Subject to certain limited exceptions, the Purchaser will have the corresponding contractual obligation to purchase **all** of the flow of Property in the Product Pool after an initial six-month Phase-In Period. (See Part VI, "Additional Terms and Conditions of Sale," Article 3; references to Articles in Part VI are hereinafter abbreviated "Art, .") The Purchaser is encouraged to market the Property to traditional DRMS buyers.

C. DESIGNATION OF SCRAP VS. USEABLE ITEMS

An entity that turns property into DRMS for disposition is termed a "generator." There are three ways that DRMS acquires Scrap from the military and from other federal activities that are generators.

First, the generator tentatively designates an item as Useable or Scrap when the item is presented for turn-in to DRMS. The DRMS receiving personnel may either accept a Scrap designation or upgrade the item to Useable (an "Upgrade Upon Receipt"). The DRMS receiving personnel similarly may either accept a Useable designation or downgrade the item to Scrap (a "Downgrade Upon Receipt"). All items that are initially designated as Scrap by DRMS (either by reason of DRMS accepting the generator's Scrap determination or by way of a Downgrade Upon Receipt) are presently sold as such by DRMS to Scrap purchasers by weight and SCL.

Second, under DRMS operations, items that are designated as Useable upon receipt are offered at no charge to certain prospective claimants ("Reutilization, Transfer and Donation" or "R/T/D" claimants) such as other U.S. military organizations. Those items that are not claimed

and removed during the R/T/D process are sold by DRMS to the Commercial Venture (CV) Purchaser. Some items, however, are withdrawn from the sale process because DRMS personnel believe that they are not saleable. All of these unsold items are downgraded to Scrap and sold as such (each, a "Post-Receipt Downgrade"), also by weight and SCL.(8)

Third, many items of military property require demilitarization for reasons of safety, national security, or both. Such "DEMIL-required" items are turned in to DRMS identified as such by the generator. DRMS either performs the required destruction itself before sale of the residue as Scrap or obligates the buyer to do so before title passes to the item.(9) See Section W for more information about demilitarization.

D. PERFORMANCE PERIOD

The successful offeror will have three months (3) after award to arrange for the facilities, staffing and equipment that will initially be required to receive and process Property. (See Art. 3.)

The minimum Performance Period for the contract is eighty-four (84) months. (See Art. 2.) DRMS may exercise options to extend the Performance Period for up to an additional thirty-six (36) months. (See Art. 2.)

The Purchaser will be required to accept referrals of Property initially at certain of the largest Scrap Yards measured by Gross Proceeds (the "Initial Delivery Points"). This list of Scrap Yards is specified in Art. 3. The Purchaser must begin accepting Property at these initial sites no later than three (3) months after the post-award conference. Moreover, the Purchaser may request an even more accelerated schedule. Subject to its ability to conclude existing term sale contracts to accommodate such a request, and subject to certain other factors, DRMS will respond to such a request in the exercise of its sole discretion. (See Art. 3 and Table VI.3.2.C.)

Subject to staffing and facilities constraints, DRMS intends to accumulate Property at a particular site in advance of the scheduled first referral of Property at that site. In other words, DRMS intends to provide the Purchaser with some beginning inventory to enable the Purchaser to begin its operations without necessarily waiting to accumulate a particular level of inventory. This applies to the Initial Delivery Points and to sites phased in later. (See Art. 3.)

Within three (3) months of the post-award conference, the Purchaser must provide to DRMS a proposed schedule for phasing in referrals at the balance of all Scrap operations that are the subject of this sale. Unless DRMS exercises its sole discretion to extend the proposed schedule, such referrals must be accomplished no later than six (6) months after the post-award

(8) The CV Purchaser also abandons Useable items to DRMS that DRMS downgrades to Scrap through Post-Receipt Downgrades.

(9) A small portion, ranging in recent years between approximately 5% and 15% of total DRMS Scrap Gross Proceeds, of DRMS Scrap items are sold subject to "Demilitarization as a Condition of Sale." and the buyers must perform the demilitarization process themselves. See Section W.

conference. The Purchaser may request an even more accelerated phase-in of the balance of the Scrap operations, and DRMS will respond to such a request in the exercise of its sole discretion.

DRMS and the Contractor will have an objectively defined early cancellation option discussed in Section II.N below. (See Art. 2.)

E. PURCHASER AND CONTRACTOR RESPONSIBILITIES

The successful offeror is referred to as the “Contractor”. The Contractor must form a single purpose Subchapter S corporation or limited liability company referred to as the “Purchaser.” The Contractor must own at least a fifty-one percent (51%) interest in the Purchaser and must control the Purchaser. (See Art. 1).

The Purchaser will be the entity that purchases the Property, manages and disposes of the Property, and manages all financial affairs including receipts, payments, accounting systems, cashflow management, audits and cash distributions to the Contractor and DRMS. As provided in Part VI, the Purchaser also pays a portion of each DRMS Distribution to Kormendi \ Gardner Partners (“KGP”). (See Art. 16.)

Although the Purchaser is the operational entity, both the Contractor and Purchaser are jointly responsible for the operations of the Purchaser. In particular, while the Contractor does not guarantee the business success of the Purchaser in any way, the Contractor does guarantee that the Purchaser will operate in total compliance with the contract. (See Art. 19.)

The Contractor’s guarantee is secured in part by its Bid Deposit of Twenty Thousand Dollars (\$20,000.00). Upon award the Bid Deposit is retained by DRMS as a “Payment Deposit” (see Art. 5) and, unless the Contractor posts a “Financial Guarantee Bond” in the amount of \$1 million, by a provision for retaining a portion of the Contractor’s distributions in a “Retention Fund” held by DRMS up to a maximum of \$500,000 in most circumstances (see Art. 15).

F. PRICING

All of the Property will be sold to the Purchaser at a Quarterly Purchase Price equal to .01 cents per pound multiplied by Delivery Weight but not less than 1 cent per “DTID”.⁽¹⁰⁾ The purpose of this pricing is to insulate both DRMS and the Contractor from the business risk presented by volatile re-sale prices in the recycling marketplace. Instead of bidding a per-pound price, therefore, offerors must offer a “Bid Price” as explained in the following section.

(10) The “DTID” is the official form (DD 1348-1) used by all military services to turn in excess property. Material or objects grouped together on a single DTID collectively constitute a single “Line Item” of Property.

G. BID PRICE

Each offeror must specify a Bid Price that is a single lump-sum dollar amount to be paid by the successful offeror to DRMS upon award of the sale contract. The Bid Price will be “repaid” from the Contractor’s 20% share of “Net Proceeds.” Apart from the Bid Price, the contract will be profitable each calendar quarter if (1) Gross Proceeds exceed Direct Costs (i.e., Net Proceeds exceed zero) and (2) the Contractor’s 20% share of Net Proceeds exceeds the Quarterly Purchase Price equal to the greater of .01 cents per pound or 1 cent per DTID. The amount of that profit will be affected in turn by the volume of the Property referred for sale to the Purchaser and the mix of relatively high-value and low-value Property that is referred. Offerors should carefully assess the risks inherent in these factors when determining their Bid Prices.

H. BIDDER DUE DILIGENCE

Prospective bidders will be provided detailed annual data on DRMS’s Scrap sales for weight, gross proceeds, and average proceeds per pound, by SCL, SCL Group, Sale Type, DEMIL Code, and Scrap Yard for fiscal years 1994 – 2004 in a data supplement that will be issued with or shortly after this IFB. Sales data for DRMS “National” Scrap sales for FY 1994 – 2003 in CONUS and Alaska but excluding the Control Group are presented in Tables II-1 through II-5 on the following pages. (Table II-6 is reserved and is not used in this IFB.) Prospective bidders may also be provided available data on recent DRMS Scrap inventory to assist prospective bidders with due diligence.

Prospective bidders will be provided access to Scrap material in the physical custody of Scrap Yards in CONUS to be pre-arranged by DRMS. Contact Greg Ortiz at (269) 961-7558 to make arrangements.

I. NET PROCEEDS AND DIRECT COSTS

Described generally, the Purchaser’s “Net Proceeds” is the Purchaser’s Gross Proceeds (obtained by the Purchaser from the Property’s sale, buyer’s premiums, insurance proceeds or by any other means), less all “Direct Costs.” Direct Costs are, generally, all costs, other than the cost of purchasing the Property and the compensation and travel expenses of the Purchaser’s Chief Executive Officer, that are actually incurred by the Purchaser solely for the management, preservation, handling, storage, improvement, transportation and disposition of the Property (e.g., payroll, office rent, travel, etc., including all costs commonly termed “overhead costs”), and paid either to a third party (including employees) or to an affiliate in connection with a “Permitted Affiliate Transaction.” (See Art. 9.)

DRMS recognizes that a particular Contractor may own, or have access through an Affiliated Party to, facilities for the shredding, smelting or other processing of scrap material. If

**DRMS National Scrap Sales
Weight, Gross Proceeds and Gross Proceeds per Pound
FY 1994 - 2003**

Weight (Thousands of Pounds)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Weight (Thousands of Pounds)	1,046,583	871,173	749,215	680,102	594,224	516,334	443,235	314,031	285,630	249,487	283,049

Gross Proceeds (\$000s)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Gross Proceeds (\$000s)	71,842	97,982	74,219	66,084	50,995	29,269	28,327	16,388	14,341	15,883	15,537

Gross Proceeds per Pound

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Gross Proceeds per Pound	\$ 0.069	\$ 0.112	\$ 0.099	\$ 0.097	\$ 0.086	\$ 0.057	\$ 0.064	\$ 0.052	\$ 0.050	\$ 0.064	\$ 0.055

8.1

**Table II-2(a)
DRMS National Scrap Sales
Weight by SCL Group
FY 1994 - 2003**

Weight (Thousands of Pounds)

SCL Group	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Aluminum	51,731	43,814	34,661	37,778	32,339	33,256	20,603	14,940	14,939	10,896	13,592
Brass and Copper	39,471	26,974	23,555	18,865	18,522	12,358	12,051	7,884	8,146	7,053	7,695
Steel and Iron	549,631	466,908	403,445	392,292	343,491	300,038	279,745	186,628	170,030	142,006	186,221
High Temp Alloys	2,926	1,967	1,890	2,015	2,593	1,723	2,412	1,855	1,410	2,227	1,830
Stainless Steel	11,617	5,939	4,890	3,376	4,000	2,635	2,926	1,891	1,359	1,131	1,460
Paper	177,121	152,146	137,976	111,769	91,058	80,659	63,273	40,420	28,558	17,332	28,770
Other (Metallic)	59,779	54,349	39,836	40,550	37,350	27,787	14,567	9,934	8,982	6,520	8,479
Other	134,363	102,463	89,544	60,252	56,639	51,641	34,946	24,757	22,895	17,289	21,647
Miscellaneous (H13)	19,944	16,614	13,418	13,205	8,233	6,257	12,712	25,722	29,311	45,032	33,355
Total	1,046,583	871,173	749,215	680,102	594,224	516,334	443,235	314,031	285,630	249,487	283,049

**Table II-2(b)
DRMS National Scrap Sales
Percentage Weight by SCL Group
FY 1994 - 2003**

SCL Group	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Aluminum	4.9%	5.0%	4.6%	5.6%	5.4%	6.4%	4.6%	4.8%	5.2%	4.4%	4.8%
Brass and Copper	3.8%	3.1%	3.1%	2.8%	3.1%	2.4%	2.7%	2.5%	2.9%	2.8%	2.7%
Steel and Iron	52.5%	53.6%	53.8%	57.7%	57.8%	58.1%	63.1%	59.4%	59.5%	56.9%	58.7%
High Temp Alloys	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%	0.5%	0.6%	0.5%	0.9%	0.6%
Stainless Steel	1.1%	0.7%	0.7%	0.5%	0.7%	0.5%	0.7%	0.6%	0.5%	0.5%	0.5%
Paper	16.9%	17.5%	18.4%	16.4%	15.3%	15.6%	14.3%	12.9%	10.0%	6.9%	10.2%
Other (Metallic)	5.7%	6.2%	5.3%	8.0%	6.3%	5.4%	3.3%	3.2%	3.1%	2.6%	3.0%
Other	12.8%	11.8%	12.0%	8.9%	9.5%	10.0%	7.9%	7.9%	8.0%	6.9%	7.6%
Miscellaneous (H13)	1.9%	1.9%	1.8%	1.9%	1.4%	1.2%	2.9%	8.2%	10.3%	18.0%	11.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

8.2

**Table II-3(a)
DRMS National Scrap Sales
Gross Proceeds by SCL Group
FY 1994 - 2003
Proceeds (\$000s)**

SCL Group	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
Aluminum	\$ 11,650	\$ 15,558	\$ 11,744	\$ 13,302	\$ 10,519	\$ 8,726	\$ 5,832	\$ 3,326	\$ 3,048	\$ 2,414	\$ 2,930
Brass and Copper	\$ 16,625	\$ 16,645	\$ 14,395	\$ 10,400	\$ 7,526	\$ 4,327	\$ 4,908	\$ 2,925	\$ 2,820	\$ 2,841	\$ 2,862
Steel and Iron	\$ 17,403	\$ 18,036	\$ 20,261	\$ 20,485	\$ 14,279	\$ 8,361	\$ 6,155	\$ 3,958	\$ 2,697	\$ 3,254	\$ 3,303
High Temp Alloys	\$ 3,667	\$ 4,180	\$ 4,111	\$ 4,992	\$ 4,508	\$ 1,931	\$ 3,909	\$ 2,413	\$ 2,302	\$ 3,849	\$ 2,855
Stainless Steel	\$ 1,973	\$ 2,146	\$ 1,636	\$ 967	\$ 969	\$ 440	\$ 946	\$ 408	\$ 191	\$ 299	\$ 299
Paper	\$ 3,691	\$ 10,281	\$ 4,290	\$ 2,923	\$ 3,049	\$ 1,684	\$ 2,425	\$ 784	\$ 419	\$ 316	\$ 506
Other (Metallic)	\$ 6,702	\$ 11,805	\$ 7,676	\$ 7,345	\$ 5,958	\$ 3,610	\$ 1,675	\$ 1,008	\$ 824	\$ 751	\$ 861
Other	\$ 8,763	\$ 17,227	\$ 54,488	\$ 1,360	\$ 1,455	\$ 746	\$ 773	\$ 435	\$ 235	\$ 173	\$ 281
Miscellaneous (H13)	\$ 1,368	\$ 2,105	\$ 4,617	\$ 4,330	\$ 2,730	\$ 1,444	\$ 1,705	\$ 1,131	\$ 1,804	\$ 1,986	\$ 1,640
Total	\$ 71,842	\$ 97,982	\$ 74,219	\$ 66,084	\$ 50,995	\$ 29,269	\$ 28,327	\$ 16,388	\$ 14,341	\$ 15,883	\$ 15,537

**Table II-3(b)
DRMS National Scrap Sales
Percentage Gross Proceeds by SCL Group
FY 1994 - 2003**

SCL Group	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average FY 2001-03
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the Purchaser were to pay the Contractor or an Affiliated Party for such processing, that would be an Affiliate Transaction and generally prohibited as such. However, the Contractor may request DRMS approval for a Permitted Affiliate Transaction at any time after award. (See Article 9.) Such a request should fully specify the details of the proposed transaction, the opportunity presented to enhance Net Proceeds, any inherent risks to the Government in terms of pricing, accountability for Property or otherwise, and the controls to be put in place to offset such risks.

The costs of any transaction with an "Affiliated Party" (as such term is defined in Art. 23) will not be considered Direct Costs unless such transaction is a Permitted Affiliate Transaction (see Art. 9).

Direct Costs are directly payable by the Purchaser out of Gross Proceeds and deductible from Gross Proceeds when calculating distributions payable to DRMS and the Contractor. (See Sections K, L and M below; see also Art. 9 and Art. 16.)

J. SELLER INDIRECT COSTS

The nature of DRMS's business and the nature of the Property itself are such that, absent special provisions in this IFB, there would be certain business risks inherent in this sale structure that would be very difficult or impossible for prospective bidders to accept. As set forth below, these risks principally relate to the logistics costs of removing Property that the Purchaser might be obligated to pick up from "off-site" locations. This IFB accordingly provides that certain of the Purchaser's costs are to be deemed "Seller Indirect Costs" and deducted in their entirety from Distributions otherwise payable to DRMS (rather than shared between DRMS and the Contractor as Direct Costs). This mechanism largely leaves the risks associated with these issues with DRMS (where they are today) and accordingly should considerably ameliorate these concerns for prospective offerors.

The logistics business risk that is addressed through the Seller Indirect Costs provisions is as follows: DRMS presently expects that Delivery of the majority of the Property that is referred for sale to the Purchaser will be at Scrap Yards and at generator locations accumulated in roll-offs, hoppers or other Containers. Subject to space constraints that are specific to each Scrap Yard and that may change over time, all Scrap Yards will be available to the Purchaser for use subject to Host Installation constraints. Moreover, the Purchaser will be able to sell and deliver Property to buyers directly at the Scrap Yard without transporting the Property any further. (If the Purchaser so elects, of course, it may instead move Property to another location for storage, consolidation, processing, re-sale or for any other purpose that does not contravene the express provisions of this IFB.)

Thus, DRMS generally expects that the Purchaser's field activities will principally be located at Scrap Yards except to the extent that, in exercising its business judgment, the Purchaser decides to transport the Property to other locations before re-sale. Nevertheless, there will often be circumstances in which Delivery at a Scrap Yard is not possible. An illustrative example is the sale of heavy material that does not require demilitarization and that would be

very expensive to move to the Scrap Yard from the generator's premises. Ideally the Delivery of the material would be "in place" without moving it at all, and its re-sale would also be at the generator's site. This may not be possible in all situations, however, especially in view of national security requirements and understandable limitations at particular military facilities. The Purchaser would then be required to take Delivery of the Property "in place" and to transport it (either to its Purchaser's Dedicated Storage at a nearby Scrap Yard or to another Purchaser facility) before re-selling it.

DRMS recognizes that the prospect of the Purchaser being obligated to incur inestimable (at the time of submitting a bid) and possibly very harmful transport costs for material that, for any reason, cannot be referred for sale and processed for re-sale at a Scrap Yard (or referred for sale and processed for re-sale "in place") presents prospective bidders with a significant business risk. DRMS's market research revealed that the magnitude of this risk is such that many potential bidders would simply not bid at all if subject to this risk, while others would deeply discount their Bid Prices to account for it. In either event, this risk would threaten the viability of a transaction that otherwise is viewed as extremely mutually beneficial.

DRMS accordingly has significantly reduced this risk from the transaction through the mechanism of Seller Indirect Costs. Thus, one example of Seller Indirect Costs, described very generally, is comprised of the minimum reasonable costs incurred by the Purchaser for loading and removing Property from Restricted Access Facilities, and for removing Property from Special Situation Locations when On-Site Processing is not permitted by DRMS. The Purchaser deducts the amount of Seller Indirect Costs incurred in a particular month, if any, from the Distribution Payment to DRMS for the month. (See Art. 9 and Art. 16.)

DRMS intends that the Seller Indirect Costs mechanism should moderate much of the risk posed by "in place" or "off-site" referrals. Nevertheless, prospective offerors should be aware that DRMS increasingly receives items from generators at locations that are not full service Scrap Yards and that have only minimal part time staffs and limited operations. The Purchaser's operating costs at these Special Situation Locations, termed "Receive In Place Locations" ("RIPLs," of which there are 43 locations around CONUS), may be relatively higher than at Scrap Yards. Because RIPLs generally permit On-Site Processing, the Purchaser's costs will be deemed Direct Costs. Prospective offerors should weigh this factor when formulating their bids.

In addition, there is one site, Puget Sound Naval Shipyard ("PSNS"), where the Scrap operations are both substantial and specialized (the dismantling of ships), and where the Seller Indirect Costs mechanism will not apply. The Purchaser will be required to provide barges, railcars or other Containers on site as set forth in Schedule IV.3.1.B(2), into which employees of the shipyard or of demolition contractors will load the Scrap material, and to remove such Containers as they fill. The costs of the Containers and their removal will be Direct Costs, even though the material is delivered on-site and On-Site Processing is not permitted. (See Art. 3.)

Moreover, DRMS presently utilizes approximately 300 Containers of various sorts at locations other than PSNS. Some of these are owned and provided by generators or DRMS, but

the majority are owned and provided by term sale re-sale buyers. The SV Purchaser will generally be free to determine where to utilize Containers other than at PSNS as a matter of business judgment, and the costs thereof will be deemed Direct Costs. There may be instances, however, in which DRMS will require the Purchaser to utilize one or more Containers at particular locations in response to a request from a Host Installation or for another reason. To the extent that DRMS does require the Purchaser to utilize Containers such that the Purchaser is required to utilize more than 300 other than at PSNS, the actual and reasonable cost of providing the additional Containers will be deemed Seller Indirect Costs. (See Art. 3.)

Provisions relating to Seller Indirect Costs are contained in Articles 3, 9 and 16. Prospective offerors are encouraged to review them in detail. In addition, prospective offerors should note that the prohibition on Affiliate Transactions extends to Seller Indirect Costs as well as to Direct Costs. (See Art. 9.)

J.1 RESOURCE RECOVERY AND RECYCLING PROGRAM (RRRP)

Certain Scrap material qualifies as Resource Recovery and Recycling Program material (“RRRP Material”). This includes ferrous, non-ferrous, and non-metallic materials. Those generators having a Qualified Recycling Program (“QRP”) may elect to sell the RRRP Material themselves. When QRPs elect this option, the material is not considered part of this sale contract and the Purchaser has no right or claim to material sold directly by QRPs.

When the generator chooses to turn the RRRP Material into a DRMO instead of selling it directly to re-sale buyers, the generator is entitled to “reimbursement” from DRMS (but not from the Purchaser) in the amount of the Gross Proceeds obtained from sale of the Scrap. When turned in to a DRMO, this material is designated as “reimbursable” on the accompanying form, the “Disposal Turn-In Document,” or “DTID.” DRMS desires that QRPs receive payment for RRRP Material as soon as reasonably possible after turn-in. Thus, twice monthly or on such other schedule as DRMS and the Purchaser agree, the Purchaser is required to notify DRMS of each receipt of RRRP Material and of the pricing received by the Purchaser and the Gross Proceeds obtained by the Purchaser for the sale of such quantity of corresponding material. This will enable DRMS to process a reimbursement to the generator as soon as is reasonably possible after turn-in (See Article 6.).

DRMS will make all RRRP “reimbursement” payments to generators out of DRMS funds. Neither the Contractor nor the Purchaser will make these payments, and these payments will not affect the Purchaser’s calculations of Gross Proceeds, Net Proceeds, or Distribution Payments.

K. OPERATING ACCOUNT AND DISTRIBUTIONS

The Contractor is generally required to cause the Purchaser to maintain sufficient cash in the Operating Account to meet the Purchaser’s immediate cash needs. (See Art. 13.) Moreover, at the end of each month, the Purchaser must evaluate its ability to make cash Distributions.

Described generally, on the one hand the Purchaser may not make any Distributions unless there is cash on hand in excess of the sum of (i) any amount owed to the Contractor for Working Capital Advances (the Working Capital Advance Balance), (ii) its liabilities under Generally Accepted Accounting Principles (“GAAP”), (iii) the “Estimated Contingent Liability Reserve” (defined in Art. 15), and (iv) the expected Direct Costs for the next month. On the other hand, again described generally, the Purchaser *must* distribute *all* of such excess.

The net effect of these cash reserve requirements is that all Net Proceeds will be distributed each month to DRMS and the Contractor except for increases in the cash reserve due to increases in GAAP liabilities, contingent liabilities or provisions for Direct Costs. If the required end-of-month cash reserve in the Operating Account is reduced due to reductions in GAAP liabilities, contingent liabilities or provisions for Direct Costs, the distributions that month will exceed Net Proceeds for the month by the amount of that reduction in the required cash balance.

Note that provisions relating to Seller Indirect Costs affect DRMS Distributions. See Art. 16 for the complete provisions governing Distributions.

L. WORKING CAPITAL ADVANCES AND REPAYMENTS

Direct Costs and Seller Indirect Costs, as noted, are payable directly out of the Purchaser’s Gross Proceeds as such are available, or out of the Purchaser’s available cash reserves. From time to time, however, and especially during the initial phase of the Performance Period, the Contractor must advance funds to the Purchaser to pay for Direct Costs and Seller Indirect Costs. These advances are termed “Working Capital Advances.” (See Art. 13.)

Working Capital Advances receive priority repayment directly out of available Gross Proceeds in the following month or months until fully repaid, but without interest thereon.

M. DISTRIBUTIONS AND PAYMENTS

The payment of Net Proceeds from the Purchaser to the Contractor is the source of return on the Contractor’s investment of capital and expertise in setting up the Purchaser as an operational entity. The payment of Net Proceeds to DRMS,⁽¹¹⁾ and the Bid Price and the Quarterly Purchase Price, are the sources of recovery enhancement for DRMS.

The Purchaser will pay to DRMS the Quarterly Purchase Price in accordance with the provisions of Art. 5. The Contractor is responsible for providing the Purchaser with the necessary funds for such purchases (“Purchase Advances;” see Art. 14).

(11) A portion of each payment due to DRMS is paid directly to DRMS’s financial advisor, Kormendi\ Gardner Partners (“KGP”); see Art. 16.

Note that the Quarterly Purchase Price is not a Direct Cost, and as such is borne solely by the Contractor and not by DRMS.

The Purchaser must pay to DRMS eighty percent (80%)(12) of all Net Proceeds (less any required increase in the cash reserve). The Purchaser must pay to the Contractor twenty percent (20%) of all Net Proceeds (less any such increase in the cash reserve). (See Art. 16.)

The Contractor thus pays the Quarterly Purchase Price and receives 20% of all Net Proceeds. In this transactional structure, therefore, the Contractor's financial incentives are fully aligned with those of DRMS (and thereby with those of the taxpayers) to maximize the Net Proceeds recovered from the management and disposition of the Property.

N. EARLY CANCELLATION OPTION

Described generally, under this option either party may terminate the contract after twelve months, upon 30 days written notice, if the mandatory minimum SV Performance Ratio threshold is not exceeded. The first time the option can be exercised is twelve (12) months after the initial Pickup Notice, then quarterly thereafter. (See Art. 2.)

The cancellation option threshold is set by formula with reference to the historical correlation of DRMS revenues with published price indices and is specified with respect to the sale proceeds achievable through the sale at Indexed Prices of specified material comparable to that sold by the Purchaser during a particular period of time. (See Art. 2.)

O. PURCHASE ACCOUNT

The Purchaser must establish a Purchase Account for funding the Quarterly Purchase Price. (See Art. 14.) Described generally, the Contractor must transfer funds to the Purchase Account ("Purchase Advances") in amounts sufficient to enable the Purchaser to pay DRMS for Property when payment is due. (See Art. 5 and Art. 14). Moreover, when cash is available for Distributions, the Purchaser must transfer Contractor Distributions into the Purchase Account as specified in Art. 14 to minimize the Purchase Advances required from the Contractor.

(12) See Art. 16 for the calculation of the portion of DRMS's 80% payment that is paid directly to KGP.

P. PAYMENT DEPOSIT

Upon award of the contract, the Contractor's \$20,000 Bid Deposit becomes a Payment Deposit that will be held by DRMS until the conclusion of the "Wind-Up" of the Purchaser (Art. 21) to secure DRMS claims against the Purchaser and/or Contractor for Material Breaches of the contract, including specifically late payment for Property. If the Purchaser fails to pay for Property when payment is due, DRMS may apply the funds in the Payment Deposit against the late payment and the Purchaser must "cure" this breach by replenishing the Payment Deposit to its original level plus 20% of the amount of the late payment. The amount of the Payment Deposit is estimated to be approximately equal to the Quarterly Purchase Price for one average year's flow of Property. At the conclusion of the Wind-Up, DRMS will return the Payment Deposit to the Contractor without interest and less the amount necessary to cover its claims, if any, against the Contractor.

Q. RETENTION FUND AND FINANCIAL GUARANTEE BOND

To ensure that DRMS is protected against the adverse financial effects of a Material Breach of the contract by either the Purchaser or the Contractor, the Contractor will be required to capitalize a source of security for DRMS claims. To this end, the Contractor will have the option of either providing a Financial Guarantee Bond at the inception of the contract or instituting a Retention Fund. (See Art. 15.)

The Financial Guarantee Bond must be in the amount of \$1 million and issued for at least a full year at a time. DRMS must approve the form of the bond and the issuing surety.

As more completely described in Art. 15, if a Financial Guarantee Bond cannot be obtained or if it is terminated without a replacement, the contract provides for a Retention Fund as follows:

- 1) Once all of the Contractor's Working Capital Advances have been repaid and the cumulative amount of the Contractor Distribution Payments equals or exceeds the cumulative amount of Purchase Advances — i.e., once cumulative cashflow to the Contractor is positive — 10% of each month's Contractor Distribution Payment (net of certain adjustments) will be diverted into a Retention Fund held by DRMS.
- 2) The maximum amount in the Retention Fund will be \$500,000.
- 3) At the end of the contract, DRMS will return the Retention Fund to the Contractor without interest and less the amount necessary to cover its claims, if any, against the Contractor. The Contractor may obtain the Retention Fund earlier only by providing a \$1 million Financial Guarantee Bond issued for the entirety of the remaining overall contract period and that is otherwise acceptable to DRMS.

R. ABSENCE OF DRMS PRE-APPROVALS, AUTHORIZATIONS AND OPERATIONAL CONTROL

Subject to the conditions of this contract, full control of all aspects of operations rests with the Purchaser and Contractor. **There are no required pre-approvals or authorizations from DRMS.**(13) The transaction is a sale transaction and title to the Property passes to the Purchaser upon its "Delivery" to the Purchaser.(14) (See Art. 1, Art. 3)

The Purchaser, however, will have to work effectively with designated Government representatives with respect to logistics (see Section U below) and trade security controls (see Section V below), and both the Purchaser and the Contractor must interact with DRMS personnel with respect to administration of contract terms and conditions, financial reporting, compliance monitoring and, perhaps, dispute resolution (see Section II.S below). Nonetheless, **there are no requirements for including DRMS in any way in the Purchaser's operational decision-making.**

The contract does provide for the Purchaser to fulfill certain requirements related to compliance review and financial auditing in certain provisions including: accounting statements (see Art. 8), inventory control and asset tracking procedures (see Art. 8), maintaining adequate insurance coverage (see Art. 11), employee compensation (see Art. 7), returning classified items (see Art. 7), dealing appropriately with hazardous materials (see Art. 7), complying with federal, state and local laws and regulations (see Art. 7), etc. The contract also contains certain provisions regarding the logistical interface with DRMS and its generators in Art. 3. Such requirements notwithstanding, **as long as the Purchaser and Contractor operate within the bounds of the contract, they will have full operational control.**

S. COMPLIANCE MONITORING AND DISPUTE RESOLUTION

While full operational control resides with the Purchaser and Contractor, DRMS or its authorized representative will have the right under the contract to monitor performance in three ways. First, the Purchaser will be required to have audited financial statements and follow Generally Accepted Accounting Principles. (See Art. 8.) Second, DRMS will have the right to conduct (or contract for that service) Compliance Reviews of the Purchaser's general compliance with the terms of the contract. (See Art. 17.) Third, DRMS may conduct audits of the Purchaser. (See Art. 8.)

DRMS will have the option of conducting Compliance Reviews on a quarterly basis and the expectation should be that DRMS will exercise that option. The focus of a Compliance Review will be less with financial flows, which are the focus of the Purchaser's financial audits, and more on observance of contractual terms such as those concerned with Affiliate

(13) An exception is Permitted Affiliate Transactions, which require DRMS approval. See Article 9.

(14) DRMS reserves the right, however, to re-purchase for the full amount of the applicable Quarterly Purchase Price any material that DRMS determines is critical to the mission of a military activity and that has not already been re-sold by the Purchaser to a re-sale buyer. See Article 7.

Transactions, Direct Costs, inventory control and asset tracking, revenue tracking, the Purchase Account, cash reserves and the Estimated Contingent Liabilities Reserve ("ECLR"). In addition, DRMS may elect to review compliance with environmental, security and safety requirements. (See Art. 17.)

In the event that disputes arise relating to contract compliance, the contract provides for a voluntary but binding dispute resolution mechanism. Under this elective mechanism, a panel of three arbitrators -- one chosen by the Contractor, one chosen by DRMS, and one jointly chosen by the Contractor and DRMS -- will receive the arguments from both sides and resolve the dispute by majority decision. It is anticipated that this mechanism will minimize conflict and reduce the cost of resolving any disagreements that arise. In addition, both Alternative Dispute Resolution and litigation are avenues available as necessary to resolve disagreements. (See Art. 20.)

T. DELIVERY POINTS

The following outline presents certain background information relevant to logistics.

1. Scrap Yards

- a. There are presently 63 DRMO Scrap Yards in CONUS outside of the Control Group (see Attachment IV).
- b. DRMS is currently in the process of reducing its infrastructure. Thus, it is possible that there will be a reduction in the number of Scrap Yards over the Performance Period of the contract.
- c. The flow of Property in the Product Pool has been somewhat concentrated in certain Scrap Yards. For example, Table II-7 on the next page shows the sale of material in the Product Pool by Scrap Yard for fiscal 2003.

2. Generators and Turn-ins

- a. Every military and reserve activity is a potential "generator" of surplus Scrap material. Because the number of active generators is subject to change, the exact number cannot be known with precision. While the vast majority of generators are military related, there are some federal agencies that turn property in to DRMS as well.
- b. A "Line Item" is an object or group of objects, all with the same SCL, turned in individually or together by a generator, and either identified on a single Disposal Turn-In Document ("DTID," a Department of Defense form), or on "Scrap Tally-in Sheets." A Scrap Line Item will have a "quantity" expressed in weight (lbs.).

DRMS National Scrap Sales
Weight, Proceeds per Pound, and Gross Proceeds
Top 15 DRMOs, FY 2003
Ranked by Total Gross Proceeds
Weight (Pounds 000's), Proceeds (\$000's)

Rank	PLR	DRMO Name	DRMO Location		Weight	Proceeds/Lb.	Proceeds	% of Proceeds	Cumulative % of Proceeds
			City	State					
1	SZPA	LEWIS	Seattle	WA	38,012,844	\$ 0.08	\$ 3,009,277	19.04%	19.04%
2	SWEA	ANNISTON	Anniston	AL	14,828,306	\$ 0.15	\$ 2,275,052	14.39%	33.43%
3	SY5A	TEXARKANA	Hooks	TX	15,970,595	\$ 0.11	\$ 1,757,193	11.12%	44.55%
4	SY5D	TEXARKANA DEMIL CENTER	Hooks	TX	1,173,680	\$ 0.97	\$ 1,138,814	7.20%	51.75%
5	ST1J	ST JULIENS	Portsmouth	VA	8,115,858	\$ 0.07	\$ 592,470	3.75%	55.50%
6	SVKC	SCOTT	Belleville	IL	10,346,127	\$ 0.06	\$ 578,564	3.66%	59.16%
7	SXGA	JACKSONVILLE	Jacksonville	FL	2,692,851	\$ 0.17	\$ 457,173	2.89%	62.05%
8	SV3D	RIPPL SILL	Lawton	OK	3,363,576	\$ 0.11	\$ 372,588	2.36%	64.41%
9	SVQA	CRANE	Crane	IN	8,439,148	\$ 0.04	\$ 359,194	2.27%	66.68%
10	SZ7A	HOOD	Killeen	TX	7,870,405	\$ 0.04	\$ 334,444	2.12%	68.80%
11	SY3A	OKLAHOMA CITY	Oklahoma City	OK	3,260,370	\$ 0.10	\$ 310,190	1.96%	70.76%
12	SXGS	CAPE CANAVERAL	Coco Beach	FL	3,004,069	\$ 0.10	\$ 308,423	1.95%	72.71%
13	SYBA	HILL	Ogden	UT	5,533,050	\$ 0.05	\$ 253,570	1.60%	74.32%
14	SWMA	BENNING	Columbus	GA	3,072,379	\$ 0.08	\$ 252,747	1.60%	75.92%
15	SZSA	TUCSON	Tucson	AZ	1,311,605	\$ 0.18	\$ 241,745	1.53%	77.45%
			Top 15		126,994,863	\$ 0.10	\$ 12,241,441	77.45%	77.45%
			All other DRMOs		117,496,912	\$ 0.03	\$ 3,565,116	22.55%	100.00%
			Total		244,491,775	\$ 0.06	\$ 15,806,557		

- c. All Scrap Yards are presently on military bases. Any given Scrap Yard will service its base generators as well as all other generators in its area. Scrap Yards are generally located so as to be near significant amounts of turn-ins of material. Table II-8 lists the DRMOs and FRAs pertinent to this sale.
3. Property Flows
- a. Between approximately 5% and 15% of recent DRMS Scrap Gross Revenues was from the sale of material with Demilitarization as a Condition of Sale (“DCS”; see Section II.W).
- b. Recently approximately 50% of DCS material is demilitarized by the buyer “in place” at generator sites. The other 50% is removed to the buyers’ facilities for demilitarization.
- c. DRMS data sources indicate that, in FY 2003, approximately 80% of all DRMS Scrap Gross Proceeds derived from the top 20 Scrap Yards.

See Art. 3 for more completely specified contractual provisions relating to logistics. Attachment II.U, Summary of Logistics Provisions, summarizes certain provisions set forth in Art. 3 that are pertinent to logistics.

U. LOGISTICS

Attachment II.U details many pertinent provisions of Art. 3 that govern logistical arrangements for handling the flow of Property. Except as otherwise provided, all of the Purchaser’s “logistics costs” — the costs incurred by the Purchaser for moving, storing, packing and removing Property — are Direct Costs.

Most Property is turned in to DRMS by generators at a Scrap Yard. Subject to Host Installation and DRMS approval, all or part of the Scrap Yard may be available, and subject to DRMS use requirements, DRMS will provide use of the Scrap Yards without charge to the Purchaser. The Purchaser’s personnel will have access to the Scrap Yard during periods that it is open, which is usually five days per week. There is no fixed deadline for removing Property from the Scrap Yard, but the Purchaser or re-sale buyer must accomplish removal as necessary to accommodate the inflow of Property. The Purchaser may also be required to remove Property at the direction of the SCO. If the SCO provides a notice requiring property to be removed in less than 120 days, all associated costs will be deemed Seller Indirect Costs. DRMS will neither pack nor unpack, nor load or unload, Property for re-sale buyers.

Because DRMS itself is in fact only a tenant on a military base, DRMS must follow the desires of the Base Commander when it comes to the appearance of the facilities. Certain

Table II-8
DRMS National Scrap Sales*
National DRMOs and FRAs
FY 2003 DRMOs

Count	PLR**	DRMO Name ***	City	State
1	ST1A	Norfolk	Norfolk	VA
2	ST1J	St. Julien’s Creek	Portsmouth	VA
3	ST4A	Richmond	Richmond	VA
4	STHA	Portsmouth	Portsmouth	NH
5	STHG	Groton	New London	CT
6	STWA	Meade	Baltimore	MD

7	STWC	FRA Aberdeen	Aberdeen	MD
8	SVCA	Lakehurst	Lakehurst	NJ
9	SVCT	Tobyhanna	Tobyhanna	PA
10	SVEA	Mechanicsburg	Mechanicsburg	PA
11	SVEC	Letterkenny	Chambersburg	PA
12	SVED	Drum	Fort Drum	NY
13	SVKA	Rock Island	Rock Island	IL
14	SVKC	Scott	Belleville	IL
15	SVKD	Duluth	Duluth	MN
16	SVKG	Great Lakes	Great Lakes	IL
17	SVKT	Sparta	Sparta	WI
18	SVKW	Whiteman	Knob Noster	MO
19	SVQA	Crane	Crane	IN
20	SVQE	Crane Demil Center	Crane	IN
21	SVXA	Columbus, OH	Columbus, OH	OH
22	SVXP	Wright-Patterson	Dayton	OH
23	SVXS	Selfridge	Mt. Clements	MI
24	SWEA	Anniston	Anniston	AL
25	SWEC	Huntsville	Huntsville	AL
26	SWED	Anniston Demil Center	Anniston	AL
27	SWEK	Keesler	Biloxi	MS
28	SWEM	FRA Montgomery	Montgomery	AL
29	SWMA	Benning	Columbus	GA
30	SWRA	Warner Robbins	Warner Robbins	GA
31	SWRB	FRA Albany	Albany	GA
32	SWRF	Forest Park	Forest Park	GA
33	SWRM	Valdosta Old	Valdosta	GA
34	SWRS	Stewart	Hinesville	GA
35	SXGA	Jacksonville	Jacksonville	FL
36	SXGD	FRA Rucker	Ozark	AL
37	SXGE	RIPL Pensacola	Pensacola	FL
38	SXGF	Eglin	Ft. Walton Beach	FL
39	SXGH	Homestead	Homestead	FL
40	SXGK	FRA Kings Bay	Kings Bay	GA
41	SXGS	Cape Canaveral	Coco Beach	FL
42	SXGT	FRA Tampa	Tampa	FL
43	SXVA	Campbell	Clarksville	KY
44	SXVB	FRA Blue Grass	Lexington	KY
45	SXVK	Knox	Elizabethtown	KY
46	SY3A	Oklahoma City	Oklahoma City	OK
47	SY3B	Mcalester	Mcalester	OK
48	SY3D	FRA Sill	Lawton	OK
49	SY3E	FRA Sheppard	Wichita Falls	TX
50	SY4A	Riley	Fort Riley	KS

* For "DEMIL as a Condition of Sale" Property, the corresponding list of DRMOs is found in Table II-10.

** "PLR" means Property Locator RIC.

*** "FRA" means Forward Receiving Area.

Table II-8
DRMS National Scrap Sales*
National DRMOs and FRAs
FY 2003 DRMOs

Count	PLR**	DRMO Name ***	City	State
51	SY4M	Whiteman	Knob Noster	MO
52	SY5A	Texarkana	Hooks	TX
53	SY5D	TEXARKANA DEMIL CENTER	Hooks	TX
54	SY6A	San Antonio	San Antonio	TX
55	SY6C	Corpus Christi	Corpus Christi	TX
56	SY6P	Polk	Leesville	LA
57	SYBA	Hill	Ogden	UT
58	SYBC	Mountain Home	Mountain Home	ID
59	SYCA	Colorado Springs	Colorado Springs	CO
60	SYKA	Ellsworth	Rapid City	CA
61	SYKE	Great Falls	Great Falls	CA
62	SYKF	Offutt	Offutt	CA
63	SYKM	Minot	Minot	CA
64	SYMA	Barstow	Barstow	CA
65	SYMC	China Lake	China Lake	CA

66	SYMD	Twenty-Nine Palms	Palm Springs	CA
67	SYME	FRA Edwards	Rosamond	CA
68	SYMN	Nellis	Las Vegas	NV
69	SYTA	Port Hueneme	Port Hueneme	CA
70	SYUM	March	Riverside	CA
71	SYUP	FRA Pendleton	Oceanside	CA
72	SZ7A	Hood	Killeen	TX
73	SZ7C	Dyess	Abilene	TX
74	SZ7F	FRA Barksdale	Bossier City	CA
75	SZ7L	FRA Little Rock	Little Rock	CA
76	SZAA	Holloman	Alamogordo	NM
77	SZAC	Cannon	Clovis	NM
78	SZAK	Kirtland	Albuquerque	NM
79	SZCA	Stockton	Stockton	CA
80	SZCF	Vandenberg	Lompoc	CA
81	SZCH	Travis	Fairfield	CA
82	SZCS	Sierra	Herlong	CA
83	SZPA	Lewis	Seattle	WA
84	SZPD	Fairchild	Spokane	WA
85	SZQH	FRA Gordon	Augusta	CA
86	SZSA	Tucson	Tucson	CA
87	SZSB	Huachuca	Huachuca	AZ
88	SZSC	RIPL Bliss	El Paso	TX
89	SZSL	RIPL Luke	Glendale	AZ
90	SZVA	Anchorage	Anchorage	AK
91	SZVF	Fairbanks	Fairbanks	AK

* For "DEMIL as a Condition of Sale" Property, the corresponding list of DRMOs is found in Table II-10.

** "PLR" means Property Locator RIC.

*** "FRA" means Forward Receiving Area.

17.2

installations place limits on the amounts of Scrap that are allowed in the Scrap Yard at any one time.

The Purchaser may use and store its materials handling equipment in the Scrap Yards. Subject to applicable law and Host Installation regulations, the Purchaser may utilize without charge such government owned materials handling equipment ("GFE") as is available at a particular Scrap Yard, but the Purchaser is responsible for required inspections, repairs, maintenance and as necessary replacement (and the costs thereof are Direct Costs), and DRMS may at any time relocate such equipment to another location for government use as determined by DRMS in the exercise of its sole discretion. The Purchaser shall request disposition instructions from the SCO when the Purchaser has determined that a particular item of GFE Equipment is no longer needed. See Art. 3, Sections 4 (A) and (G).

The Purchaser is permitted to perform resorting and segregation of the Property on the Scrap Yard premises. Any industrial operation, such as shredding or baling, must be approved by DRMS. Subject to Host Installation constraints, generally speaking, if such an operation was in practice at the DRMO prior to award of this contract, the Purchaser will be permitted to continue such operation.(15) Any new industrial operation may require permission of the Base Commander. The Purchaser may permit re-sale customers to inspect the Property in the Scrap Yard, but a representative of the Purchaser must accompany customers at all times. Purchaser will be required to escort re-sale customers from installation gates to the Scrap Yard when it is required, and permitted, by the Host Installation.

DCS Property is referred for sale at either a DRMS site or the generator's site. The Purchaser will not be responsible for surveillance, verification or certification of demilitarization, as only properly trained government employees may perform these functions. The Purchaser will, however, coordinate with DRMS, the generator and the re-sale buyer to enable proper demilitarization and removal (or removal for demilitarization at the buyer's facilities).

There may be Property referred for sale at and requiring removal from Special Situation Locations and Restricted Access Facilities. Described very generally and subject to certain limitations and conditions, and as discussed more completely in Section II.J above, the actual and minimum reasonable costs incurred by the Purchaser for the packing, loading and removal of Property from such locations will be deducted from Distribution Payments to DRMS as Seller Indirect Costs unless DRMS arranges for the Purchaser to conduct On-Site Processing of such items. On-Site Processing means that, subject to certain conditions and described very generally, that the Purchaser and its prospective re-sale buyers are provided access to the site to allow the placement of a roll-off or similar Container. As described above, Puget Sound Naval Shipyard is treated uniquely under this contract, and it is not a Special Situation Location for the purpose of determining Seller Indirect Costs.

The Purchaser is responsible to DRMS for any damage that is caused to any government equipment or facilities that arises out of the negligence of the Purchaser, its vendors or re-sale

U.1 ADDITIONAL MATERIAL

Certain additional material may be included within this contract, as follows.

Additional Property. DRMS may elect in the exercise of its sole discretion to refer for sale under this contract such additional material or items (“Additional Property”) as DRMS determines would be in the best interest of the Government. (See Art. 2.)

V. DEMIL “B” AND “Q” PROPERTY

Some of the material in the Product Pool is subject to trade security controls (i.e., export restrictions) because it could contain sensitive technology. This material is comprised of Munitions List Items (“MLI”) or Commerce Control List Items (“CCLI”) that have a DEMIL Code of “B” or “Q.” Prior to award of this contract, the Purchaser will be required to submit to the SCO a properly completed End Use Certificate (“EUC”) and obtain a Trade Security Control clearance.

Described generally, export of this material requires an export license issued by the Department of State. DRMS presently sells such material within CONUS pursuant to the procedures described below. As is also described below and as is set forth in Art. 7, the Purchaser will also be required to comply with certain trade security control procedures. In addition, the Purchaser will be required to comply with any new trade security control requirements that may be mandated during the Performance Period. Such new requirements may impose new, higher costs upon the Purchaser. Prospective offerors should weigh this risk factor when determining their Bid Prices.

All Property offered under this contract requires Mutilation, unless specifically excluded from Mutilation by the Government. The Mutilation requirement includes metallic DEMIL Code “A” Property. DEMIL Code “A” Property generally excluded from the Mutilation requirement includes: tires, lockers, ammunition cans, production stock/residue (bars, plate rod, wire, borings and turnings), wire and cable, pipe and tube construction material/residue (lumber, block, brick, windows, I-beams), vehicles, wood products, furniture, and white goods (appliances, e.g., refrigerators). The Purchaser may request from the SCO that other DEMIL “A” property be excluded from the Mutilation requirement. DRMS will evaluate such requests in the exercise of its sole discretion.

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Described very generally, pursuant to current DRMS procedures the winning bidder for DEMIL “B” and “Q” material is required before award of a sale contract (i) to be cleared by the Defense Logistics Agency (“DLA”) Trade Security Controls Office as a buyer of DEMIL “B” or “Q” material (clearances must be renewed every five years), and (ii) to submit to the SCO a properly completed “End-Use Certificate” (or “EUC”) in the form of DLA Form 1822 (A copy of this form is attached as Attachment VI.7.5.B.). Described generally, the EUC requires the prospective buyer to identify itself and the subject property, to describe the nature of the buyer’s business, to specify the expected disposition and specific end-use of the subject property, to acknowledge the applicability of the pertinent trade security export controls, and to certify that the information on the EUC is true.

Prior to award of this contract, the Purchaser will be required to obtain a trade security control clearance and to submit to the SCO a properly completed EUC. The clearance will be effective for a five-year period unless the information in the EUC is materially changed (i.e., change of Purchaser’s officers, change of physical address, etc.). The clearance investigation determines that the entity is who it claims to be, doing business at the name and location claimed and that there are no disqualifying factors present (i.e., convictions for illegal export of military technology, debarment by a Government activity, etc.). All secondary purchasers of MLI and CCLI from this contract will undergo a similar clearance.

Re-sale trade security control procedures applicable to the Purchaser will be generally as follows. The Purchaser will be required to notify prospective buyers in catalogs and re-sale documents of the necessity to comply with TSC requirements and export controls. The Purchaser will be required to obtain a properly completed EUC from the prospective re-sale buyer of each lot (or group of lots at a single re-sale event) of DEMIL “B” or “Q” material before releasing such material to the prospective re-sale buyer. Upon receipt of the properly completed EUC, the Purchaser must confirm with the SCO that the prospective re-sale buyer is currently cleared to purchase export-controlled material. If not, the buyer must submit such information to the SCO who will submit the completed EUC to the DLA Trade Security Controls enforcement office as may be required for the buyer to be cleared before the buyer can receive any export controlled material. The DLA Trade Security Controls Office is the clearance authority and the determining authority relative to the proper completeness of EUCs.

Material that has already been destructively “scrapped” before re-sale, either by the generator or by the Purchaser, in a manner that prevents recognition or reconstruction of the original item, will be considered DEMIL “A” and can then be immediately sold and/or released to a re-sale buyer without an EUC or further clearance processing. The Purchaser must place a certification of the destructive scrapping in the Records and make them available for review by appropriate authorities. (See Art. 7)

If the material (DEMIL “B” and “Q” Property) has not been destructively scrapped before re-sale, the Purchaser must obtain from the (cleared) re-sale buyer an executed acknowledgement of the buyer’s responsibility to do so and of its responsibility to submit to the Purchaser a post-scrapping certification that the scrapping has been accomplished. (See Art. 7.)

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In recent years a significant portion of the DRMS Scrap Gross Proceeds was associated with items with a DEMIL Code of “B”. (See Figs. II-13 through II-1 7, and Tables II-5(a) through II-5(c) above.)

W. DEMILITARIZATION

Federal law and/or DoD regulation or policy require that any item with a DEMIL Code other than “A,” “B” or “Q” must be “demilitarized” through such methods as melting, cutting, crushing, etc. before the resulting demilitarization “residue” is sold for its material content. In some cases of such “DEMIL-required” items, the military itself demilitarizes the item before turning in the residue to DRMS as Scrap. For most DEMIL-required items, however, either

the demilitarization is performed at one of the four DRMS Demilitarization Centers (“DEMIL Centers”) within CONUS or DRMS sells the property with “Demilitarization as a Condition of Sale” (“DCS”; such property is termed “DCS Property”). As the term “Demilitarization as a Condition of Sale” suggests, the re-sale buyer itself must perform the destructive DEMIL procedure before title to the residue passes to the buyer. (See Part 6, Sections A and B of Attachment V.)

The DRMS DEMIL Centers are presently located at Crane Naval Surface Warfare Center, Crane, Indiana; Red River Army Depot (Texarkana), Hooks, Texas; Anniston Army Depot, Anniston, Alabama; and Davis-Monthan Air Force Base, Tucson, Arizona. DRMS transports certain lighter DEMIL-required items received at other locations to one of these DEMIL Centers to be demilitarized. Demilitarization is, and throughout the SV Performance Period will be, performed by federal employees or federal contractors. The resulting “DEMIL residue” will be referred for sale to the Purchaser as Scrap at Red River (Texarkana). At Anniston, Davis-Monthan (Tucson) and Crane, however, the federal contractor that presently performs the demilitarization also sells the DEMIL residue on behalf of DRMS and, accordingly, such DEMIL residue is not available to be referred to Purchaser for sale. At any time during the Performance Period, DRMS may elect in its sole discretion to refer the DEMIL residue at Anniston, Davis-Monthan (Tucson) and Crane for sale to the Purchaser under this sale contract as “Additional Property.” (See Art. 2.) In addition, DRMS may change the number and locations of its DEMIL centers from time to time in its sole discretion. Nevertheless, throughout the Performance Period all DEMIL residue that is produced at locations other than Anniston, Davis-Monthan (Texarkana) and Crane that are subject to an SV contract will be referred for sale to the Purchaser. Please note that all Property classified as “weapons” is excluded from this contract.

Most DEMIL residue has a DEMIL Code of “B,” meaning that export controls apply to its sale. (See Section V.) Some DEMIL residue can receive a DEMIL Code of “A,” but it must be coded as “B” if it is commingled with other “B” items.

A certain quantity of DEMIL-required items is sold by DRMS at locations other than DEMIL Centers without either the military or DRMS having performed the required demilitarization procedure. Instead such items are sold as DCS Property. Such DCS Property is generally too heavy to transport economically to a DEMIL Center. Examples could be naval gun

turrets or substantial quantities of large caliber fired shell casings. Some DCS Property is demilitarized “in place” at the generating site by the buyer using equipment that it brings on-site. Other DCS Property is transferred at the buyer’s expense to an off-site facility subject to the provisions of Section B of Part 6 of Attachment V.

Some Property is designated with DEMIL Code “E.” This material includes, but is not limited to, items such as expended small arms cartridge cases, tank track, and road wheels. To be eligible to receive material with a DEMIL Code of “E,” all bidders must complete and submit the Certification, an example of which is attached at Attachment II. W.

Table II-9 below presents DCS Acquisition Values and Gross Proceeds for fiscal years 1998 – 2003,

Table II-10 presents the DRMOs that currently use DCS.

X. MISCELLANEOUS

Prospective bidders should note that work performed on government premises, such as at DRMOs and other Delivery Points, may be subject to the provisions of Public Law 89-176, September 10, 1965 (18 U.S.C. 4082(c)(2)) and Executive Order 11755, December 29, 1973 (convict labor), and/or the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333) and regulations of the Secretary of Labor thereunder (overtime compensation).

Prospective bidders should also note that, under applicable law, the export of property either directly or indirectly to the following countries is prohibited: Cuba, Iran, Iraq, Libya, North Korea, Sudan and UNITA (Angola). Moreover, the list of prohibited countries may change over the course of the Performance Period.

RESOURCE CONSERVATION AND RECOVERY ACT NOTICE: EPA Hazardous Waste Regulations, 40 CFR Part 260 et seq. published at 45 Federal Register 33063-33285, May 19, 1980, became effective on November 19, 1980. These cradle-to-grave regulations detail the responsibilities of generators, transporters, treaters, storers and disposers of hazardous waste. Civil and criminal penalties are available for noncompliance. DRMS does not intend to transfer any RCRA regulated hazardous waste under this contract as regulated waste is disposed of under DRMS’s hazardous waste contracts. However, DRMS can make no representations as to when and under what circumstances state, federal or local environmental regulations may be applicable to Property transferred to and held by the Purchaser.

CHEMICAL AGENT RESISTANT COATING (CARC) PAINT: Prospective offerors are cautioned that some items are, or likely to contain or be coated with a chemical agent resistant coatings containing trivalent chrome, lead, cobalt-zinc hexamethylene disocyanate and other chemicals which are a hazard to human health if not processed properly. The Government brings the following precautions/warnings to the attention of prospective offerors who plan to disturb the coating on the property in any way:

**Table II-9
DRMS National Scrap Sales
DEMIL as a Condition of Sale
FY 1998 - 2003**

	1998	1999	2000	2001	2002	2003
Quantity Removed	3,103,470	1,282,186	151,906	189,536	214,067	307,257
Unadjusted Acquisition Value (\$000s)	\$ 871,070	\$ 716,406	\$ 506,609	\$ 571,126	\$ 328,339	\$ 2,214,989
Gross Proceeds (\$000s)	\$ 4,205	\$ 1,725	\$ 2,008	\$ 1,065	\$ 351	\$ 569

22.1

Table II-10
DRMS National Scrap Sales
DEMIL as a Condition of Sale
National DRMOs
FY 2003 DRMOs

Count	PLR*	DRMO Name	City	State
1	ST4A	Richmond	Richmond	VA
2	STWA	Meade	Baltimore	MD
3	SVCT	Tobyhanna	Tobyhanna	PA
4	SVEC	Letterkenny	Chambersburg	PA
5	SVQA	Crane	Crane	IN
6	SWRA	Warner Robbins	Warner Robbins	GA
7	SY3B	Mcalester	Mcalester	OK
8	SYUA	San Diego	Imperial Beach	CA
9	SZCA	Stockton	Stockton	CA
10	SZPA	Lewis	Seattle	WA
11	SZSA	Tucson	Tucson	AZ
12	SZSD	Tuson Demil Center	Tuscon	AZ

* "PLR" stands for Property Locator RIC.

22.2

- (1) Air sampling must be conducted to determine the correct type of respirator to be used when processing (applying/sanding/torch cutting, etc.) metals treated or painted with CARC paint.
- (2) CARC paint should be isolated from heat, electrical equipment, sparks and open flame during storage or application. Local exhaust ventilation should be used for inside processing.
- (3) Exposure to vapor/mist/dust or fumes can cause irritation to respiratory tract (lung, nose, throat), edema, dermatitis, dizziness, rash, itching, swelling of extremities, eye irritation or damage to nervous system, kidney or liver. Coating may be fatal if swallowed.

REFRIGERANT: Refrigeration equipment and appliances are subject to the Clean Air Act (CAA) Amendments of 1990 which prohibit the venting or release to the environment of Class I or Class II ozone depleting substances, and are also subject to the Refrigerant Recycling Rule in 40 Code of Federal Regulations (CFR) Subpart F 82.150-166, requiring the recovery and verification of refrigerant removal by a certified technician, using certified recovery equipment prior to final disposal as scrap or in a landfill. A copy of these records will be available for inspection by government personnel.

AIRCRAFT INSIGNIA AND MARKINGS: The Purchaser will be required to permanently remove or obliterate all Military Service distinctive markings from aircraft prior to removal from the Government premises. The Purchaser may remove or obliterate the markings by scraping, grinding, use of paint removers, or by other means upon approval of the SCO. This requirement does not apply to aircraft which are required to be demilitarized.

KITCHEN STOVES: In the event of sale or re-sale of Property identified on a Pickup Notice as "Article LN Kitchen Stoves," Purchaser shall ensure that the warning statement which is affixed to such items regarding their design features and reuse will not be removed prior to sale to an ultimate user, and Purchaser shall include this clause in its entirety in any later sale or transfer of title, unless Purchaser modifies, replaces or repairs the stoves to remove or eliminate the hazard.

Prospective offerors should also note that there are certain Public Laws that may impact the flow of items that otherwise would become "Property" that is subject to this sale:

Public Law 98-575, Commercial Space Launch Act ("CSLA"), dated October 30, 1984. The purposes of the CSLA are to promote economic growth and entrepreneurial activity through the utilization of the space environment for peaceful purposes; encourage the private sector to provide launch vehicles and associated launch services; facilitate/encourage the acquisition (sale, lease, transaction in lieu of sale, or otherwise) by the private sector of launch property of the U.S. which is "excess or otherwise not needed for public use," in consultation with Secretary of Transportation. Donation screening is not required prior to sale.

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Wildfire Suppression Aircraft Transfer Act of 1996, dated January 3, 1996.

This act authorizes the sale of excess Department of Defense (DoD) aircraft and aircraft parts to facilitate the suppression of wildfire. Prior to the sale, the Secretary of Agriculture must certify that the person or entity is capable of meeting the terms and conditions of a contract to deliver fire retardant by air. The buyer must certify that the aircraft and aircraft parts will be used only for wildfire suppression purposes.

Public Law 106-181, Oil Spill Containment Act.

This statute, also known as “The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century,” allows DoD, during the period 4 April 2000 through 30 September 2002, to sell aircraft and aircraft parts to a person or entity that provides oil spill response services (including the application of oil dispersants by air).

Y. RISK FACTORS

A prospective offeror should be aware of certain risk factors that could affect an offeror’s assessment of this contract and the calculations supporting the offeror’s bid. Although DRMS does not represent that it has identified all such risk factors, the following, in addition to those risks identified elsewhere in this IFB, should be considered by a prospective offeror:

The future volume, quality, condition, market value, types (i.e., distribution of Property referrals across SCLs), and geographic concentrations (i.e., referrals for sale at particular Delivery Points) of the Property cannot be predicted. Variability in any of these dimensions could adversely affect the Purchaser’s re-sale proceeds and costs, thereby reducing the prospective Contractor’s investment gains or increasing its losses.

DRMS has endeavored to present historical data in this IFB that, subject to the descriptions and qualifications accompanying presentation of the data, are accurate. Nevertheless, DRMS cannot guarantee the accuracy of these data, and the data may contain material inaccuracies or omissions.

The amounts and timing of Seller Indirect Costs incurred by the Purchaser cannot be predicted. Because the provisions of the contract require initial funding of Seller Indirect Costs by the Purchaser and/or the Contractor, unexpectedly high expenditures for Seller Indirect Costs may temporarily reduce investment gains or increase losses for the prospective Contractor.

The amounts and timing of Direct Costs incurred by the Purchaser cannot be predicted. Moreover, historical data on proceeds obtained by DRMS from the sale of items in the pertinent SCLs are not necessarily accurate predictors of the re-sale proceeds obtainable by the Purchaser.

Inflows of Property at particular Scrap Yards may be sufficiently high relative to space availability as to cause removal and/or re-sale by the Purchaser on an expedited and less efficient schedule than desired by the Purchaser. Moreover, some Scrap Yards are likely to be closed during the prospective Performance Period as part of the DRMS infrastructure reduction program. This may lead to referrals of Property in place at Special Situation Locations, thus causing the Purchaser to incur above normal costs (if allowed to sell in place) or to incur Seller Indirect Costs that must be funded by the Purchaser and/or the prospective Contractor until such time as amounts otherwise distributable to DRMS are sufficient to reimburse such expenditures.

Costs incurred to phase in Property purchases and re-sales, both during the Phase-In Period and beyond, may be higher than expected by the prospective Contractor. Moreover, the re-sale of Property, both during the Phase-In Period and thereafter, may take longer than anticipated by the prospective Contractor.

DRMS may not be able to add particular Delivery Points to the Phase-In Schedule as quickly as expected or desired by the prospective Contractor.

The Purchaser is responsible for the cost associated with the disposal of material that is unsaleable.

In several respects this contract requires cooperation between DRMS and the Purchaser, especially as regards the logistics of referring Property for sale to Purchaser, Delivery of the Property, arranging access to the Property for Purchaser and prospective re-sale buyers, removing Property from certain Delivery Points upon request or notice from DRMS, and in other respects. Moreover, the contract provides that DRMS may exercise its sole discretion to grant or deny certain requests by the Purchaser, including without limitation requests for On-Site Processing at certain Delivery Points. A prospective offeror should consider the risks that such cooperation may be less forthcoming, and that such requests are granted less often, or with respect to less important matters or subject to more burdensome conditions, than the prospective offeror had expected.

The inflow of items to DRMS from generators cannot be predicted in terms of the initial designation of Property as “Scrap” or “Useable,” and DRMS policies and procedures with respect to such designations may change during the Performance Period. The pertinent provisions of the contract may not insulate the Contractor and Purchaser from the adverse consequences of such factors to the extent expected by the prospective Contractor.

The complexity and costs of implementing, maintaining and operating the accounting and inventory control systems as required by pertinent provisions of the contract may be greater than anticipated by the prospective Contractor. In addition, the costs of complying with the contract’s requirements with respect to reporting, financial

auditing and compliance auditing may be greater than anticipated by the prospective offeror.

Subject to provisions governing early cancellation and termination, the Performance Period is seven years (84 months) with three - one (1) year options for the Government to extend the Performance Period. The Government can not exercise an extension of the contract beyond ten years. It may be more difficult or more costly for the Purchaser to hire and retain employees, especially near the end of the Performance Period, than anticipated by the prospective Contractor.

The costs of compliance with present or future trade security control procedures may be higher than anticipated by the prospective Contractor, and such procedures may cause the revenue obtainable from the sale of material that is subject to trade security controls to be reduced or delayed.

Described generally, applicable statutes and regulations grant DRMS less flexibility to agree to amend a contract after award than a prospective offeror may have experienced in other contractual settings. Prospective offerors should assume that the provisions of the contract cannot be significantly amended after award.

This IFB presents several examples of illustrative financial calculations based upon certain purely hypothetical assumptions concerning such matters as revenues, costs and other assumptions. These calculations are presented solely for the purpose of illustrating certain of the mechanics of the contract. DRMS cannot predict, and makes no representation concerning, any assumption that is material to projecting or calculating the performance of the Purchaser or the investment gains or losses for the prospective Contractor under this contract. Moreover, the illustrative calculations presented in this IFB are simplified for the purpose of illustrating certain mechanics of the contract and are not intended to identify all material assumptions or factors that may affect the performance of the Purchaser or investment gains or losses for the prospective Contractor.

This IFB may be the subject of one or more protests to the U.S. General Accounting Office. Moreover, it is possible that, either pending or after award, one or more third parties that object to this contract could institute litigation involving both DRMS and the Contractor. DRMS cannot predict the likelihood or the possible outcome of such litigation.

Applicable statutes, regulations, policies and inter-service agreements govern whether the disposition of particular items of surplus is through DRMS or through other disposition modes. The volume and nature of the Property referred for sale under this contract could be affected by changes in such governing statutes, regulations, policies and inter-service agreements.

III. BID SCHEDULE

A. BACKGROUND INFORMATION

Most Scrap to be sold under this IFB is categorized by Scrap Classification Code (SCL) and DEMIL Code. The remainder of Scrap to be sold is DCS Property, which is categorized by Federal Supply Classification Code (FSC). The complete listing of SCL Codes and FSC Codes included in the contract is detailed in Table IV-1(a) and IV-1(b) respectively in Part IV below.

B. BID PROCESS

A bid must offer a Bid Price to be paid to DRMS upon award of a sale contract. The "Item Bid Page" in the Attachment to the accompanying "Bidding Instructions and Bid Forms" is for formally registering the offeror's Bid Price. Award of the SV sale contract will be made to the responsive, responsible bidder that offers the highest Bid Price. The winning bid will be determined from the offered Bid Prices as set forth in Section Two of Article One (Bidding and Contract Award) below.

The accompanying "Bidding Instructions and Bid Forms" provide an illustration of the determination of the winning bid.

C. ILLUSTRATIVE FINANCIAL MODEL

Table III-1 below presents a scenario for a monthly illustrative financial model of the proposed transaction with certain assumptions listed at the beginning of each table.

Figures used in this table, and all other forward-looking figures in the IFB, are for illustrative purposes only. DRMS cannot predict the flow of Property to be sold under this contract and DRMS expressly disavows any implication to the contrary. Moreover, historic DRMS operating data are not necessarily reliable indicators of future Property deliveries under this contract, the quality or resale value of such Property or future operating costs. DRMS does not make any representation of any character concerning the Property to be sold hereunder.

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ASSUMPTIONS AND PARAMETERS IN ILLUSTRATIVE 7 YEAR FINANCIAL MODEL Five-Month Phase-In 0% - 4% - 8% Purchaser Enhancement

Weight of scrap Referred for Sale to Purchaser (Pounds, 000s)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
250,000	225,000	202,500	182,250	164,025	147,623	132,860

Annual decline in weight of scrap Referred for Sale to Purchaser

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
NA	10%	10%	10%	10%	10%	10%

During the 1st year of operation, the Purchaser receives an increasing percentage of the Property:

Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
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6. Available for Distribution	542	431	431	431	431	431	431	431	431	431	431	431
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payments to DRMS: Bid Price	0	0	0	0	0	0	0	0	0	0	0	0
2. Payments to DRMS: Quarterly Purchase Price	0	0	(5.3)	0	0	(5.1)	0	0	(5.1)	0	0	(5.1)
3. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
5. Distributions = 20% of Net Proceeds	108	86	86	86	86	86	86	86	86	86	86	86
6. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
7. Retention Fund (Payments) Credits	0	0	0	0	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
8. Retention Fund - Balance	0	0	0	0	(9)	(17)	(26)	(34)	(43)	(52)	(60)	(69)
9. Contractor Net Cashflow - This Month	108	86	81	86	78	72	78	78	72	78	78	72
10. Contractor Cumulative Net Cashflow	(304)	(217)	(137)	(50)	27	99	177	255	327	405	482	554
B. DRMS Cashflows												
1. Payments from Contractor for Bid Price + Qtrly Purchase Price	0	0	5	0	0	5	0	0	5	0	0	5
2. Gross Distribution Payments [80% of Net Proceeds]	434	345	345	345	345	345	345	345	345	345	345	345
3. Purchase Price + Gross Distributions	434	345	350	345	345	350	345	345	350	345	345	350
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	0	0	0	0	9	9	9	9	9	9	9	9
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	434	345	350	345	353	358	353	353	358	353	353	358
8. DRMS Cumulative Cashflow	9,153	9,497	9,847	10,192	10,545	10,903	11,256	11,609	11,967	12,320	12,674	13,032

28.4

Table III-1
Scrap Venture Illustrative 7 Year Financial Model

All Figures (000s)	Year 4											
	Month 37	Month 38	Month 39	Month 40	Month 41	Month 42	Month 43	Month 44	Month 45	Month 46	Month 47	Month 48
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Weight of Scrap Delivered	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188
2. Weight of Scrap Sold	16,875	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188
3. Weight of Scrap in Inventory	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188	15,188
B. DRMS Baseline Proceeds												
1. DRMS Baseline Gross Proceeds	835	835	835	835	835	835	835	835	835	835	835	835
2. DRMS Baseline Expenses	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)	(585)
3. DRMS Baseline Net Proceeds	251	251	251	251	251	251	251	251	251	251	251	251
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	1,002	902	902	902	902	902	902	902	902	902	902	902
Purchaser Start Up Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Purchaser Expenses	(572)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)
2. Total Purchaser Expenses	(572)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)
3. Purchaser Net Proceeds (Direct Cost Advance)	431	388	388	388	388	388	388	388	388	388	388	388
4. Purchaser Operating Cash Balance	515	515	515	515	515	515	515	515	515	515	515	515
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	488	388	388	388	388	388	388	388	388	388	388	388
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payments to DRMS: Bid Price	0	0	0	0	0	0	0	0	0	0	0	0
2. Payments to DRMS: Quarterly Purchase Price	0	0	(4.7)	0	0	(4.6)	0	0	(4.6)	0	0	(4.6)
3. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
5. Distributions = 20% of Net Proceeds	98	78	78	78	78	78	78	78	78	78	78	78
6. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
7. Retention Fund (Payments) Credits	(10)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
8. Retention Fund - Balance	(79)	(86)	(94)	(102)	(110)	(117)	(125)	(133)	(141)	(148)	(156)	(164)
9. Contractor Net Cashflow - This Month	88	70	65	70	70	65	70	70	65	70	70	65
10. Contractor Cumulative Net Cashflow	642	712	777	847	917	982	1,052	1,121	1,187	1,256	1,326	1,391
B. DRMS Cashflows												
1. Payments from Contractor for Bid Price + Qtrly Purchase Price	0	0	5	0	0	5	0	0	5	0	0	5
2. Gross Distribution Payments [80% of Net Proceeds]	390	310	310	310	310	310	310	310	310	310	310	310
3. Purchase Price + Gross Distributions	390	310	315	310	310	315	310	310	315	310	310	315
4. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
5. Retention Fund (Payments) Credits	10	8	8	8	8	8	8	8	8	8	8	8
6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	400	318	323	318	318	322	318	318	322	318	318	322
8. DRMS Cumulative Cashflow	13,432	13,750	14,072	14,390	14,708	15,030	15,348	15,666	15,988	16,306	16,624	16,946

28.5

Table III-1
Scrap Venture Illustrative 7 Year Financial Model

All Figures (000s)	Year 5											
	Month 49	Month 50	Month 51	Month 52	Month 53	Month 54	Month 55	Month 56	Month 57	Month 58	Month 59	Month 60
I. Assumptions & Cash Flows												
A. Purchaser Inventory												
1. Weight of Scrap Delivered	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669
2. Weight of Scrap Sold	15,188	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669
3. Weight of Scrap in Inventory	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669	13,669
B. DRMS Baseline Proceeds												
1. DRMS Baseline Gross Proceeds	752	752	752	752	752	752	752	752	752	752	752	752
2. DRMS Baseline Expenses	(526)	(526)	(526)	(526)	(526)	(526)	(526)	(526)	(526)	(526)	(526)	(526)
3. DRMS Baseline Net Proceeds	226	226	226	226	226	226	226	226	226	226	226	226
C. Purchaser Cashflows												
1. Purchaser Gross Proceeds	902	812	812	812	812	812	812	812	812	812	812	812
Purchaser Start Up Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Purchaser Expenses	(515)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)
2. Total Purchaser Expenses	(515)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)	(463)
3. Purchaser Net Proceeds (Direct Cost Advance)	388	349	349	349	349	349	349	349	349	349	349	349
4. Purchaser Operating Cash Balance	463	463	463	463	463	463	463	463	463	463	463	463
5. Purchaser Working Capital Advance Balance	0	0	0	0	0	0	0	0	0	0	0	0
6. Available for Distribution	439	349	349	349	349	349	349	349	349	349	349	349
II. Recap of Payments & Distributions												
A. Contractor Cashflows												
1. Payments to DRMS: Bid Price	0	0	0	0	0	0	0	0	0	0	0	0
2. Payments to DRMS: Quarterly Purchase Price	0	0	(4.3)	0	0	(4.1)	0	0	(4.1)	0	0	(4.1)
3. Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
4. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0	0	0	0	0	0	0	0
5. Distributions = 20% of Net Proceeds	88	70	70	70	70	70	70	70	70	70	70	70
6. Payment Deposit	0	0	0	0	0	0	0	0	0	0	0	0
7. Retention Fund (Payments) Credits	(9)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
8. Retention Fund - Balance	(173)	(180)	(187)	(194)	(201)	(208)	(215)	(222)	(229)	(235)	(242)	(249)

6. Less Seller Indirect Costs	0	0	0	0	0	0	0	0	0	0	0	0
7. DRMS Net Cashflow - This Month	284	226	229	226	226	229	226	226	229	226	226	230
8. DRMS Cumulative Cashflow	23,848	24,074	24,303	24,530	24,756	24,985	25,211	25,437	25,666	25,892	26,118	26,349

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Table III-1
Scrap Venture Illustrative 7 Year Financial Model

All Figures (000s)	Wind-Up				Totals / Balances
	Month 85	Month 86	Month 87	Month 88	
I. Assumptions & Cash Flows					
A. Purchaser Inventory					
1. Weight of Scrap Delivered	0	0	0	0	1,282,383
2. Weight of Scrap Sold	11,072	0	0	0	1,282,383
3. Weight of Scrap in Inventory	0	0	0	0	0
B. DRMS Baseline Proceeds					
1. DRMS Baseline Gross Proceeds	0	0	0	0	70,531
2. DRMS Baseline Expenses	0	0	0	0	(49,372)
3. DRMS Baseline Net Proceeds	0	0	0	0	21,159
C. Purchaser Cashflows					
1. Purchaser Gross Proceeds	658	0	0	0	75,536
Purchaser Start Up Expenses	0	0	0	0	(800)
Purchaser Expenses	(375)	0	0	0	(44,153)
2. Total Purchaser Expenses	(375)	0	0	0	(44,953)
3. Purchaser Net Proceeds (Direct Cost Advance)	283	0	0	0	30,583
4. Purchaser Operating Cash Balance	0	0	0	0	0
5. Purchaser Working Capital Advance Balance	0	0	0	0	0
6. Available for Distribution	658	0	0	0	30,583
II. Recap of Payments & Distributions					
A. Contractor Cashflows					
1. Payments to DRMS: Bid Price	0	0	0	0	(2,000)
2. Payments to DRMS: Quarterly Purchase Price	0	0	0.0	0	(128)
3. Direct Cost (Advances) Repayments	0	0	0	0	0
4. Cumulative Direct Cost (Advances) Repayments	0	0	0	0	0
5. Distributions = 20% of Net Proceeds	132	0	0	0	6,117
6. Payment Deposit	0	30	0	0	0
7. Retention Fund (Payments) Credits	0	250	0	0	0
8. Retention Fund - Balance	(250)	0	0	0	0
9. Contractor Net Cashflow - This Month	132	280	0	0	3,988
10. Contractor Cumulative Net Cashflow	3,708	3,988	3,988	3,988	3,988
B. DRMS Cashflows					
1. Payments from Contractor for Bid Price + Qtrly Purchase Price	0	0	0	0	2,128
2. Gross Distribution Payments [80% of Net Proceeds]	526	0	0	0	24,467
3. Purchase Price + Gross Distributions	526	0	0	0	24,595
4. Payment Deposit	0	(30)	0	0	0
5. Retention Fund (Payments) Credits	0	(250)	0	0	0
6. Less Seller Indirect Costs	0	0	0	0	0
7. DRMS Net Cashflow - This Month	526	(280)	0	0	26,595
8. DRMS Cumulative Cashflow	26,875	26,595	26,595	26,595	26,595

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IV. ITEM DESCRIPTION

It has been determined that the material with the SCL Codes presented in Table IV is no longer needed by the Federal Government. The data presented in and accompanying this IFB present a sales history of the subject SCL Codes and DEMIL Codes and other related information. Bidders are advised that any sales history information is provided for informational purposes only. Prior year material generations and sales data are not predictors of future generations or sales.

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Table IV-1(a)
Product Pool SCL Codes, SCL Group and SCL Code Description

Sorted by SCL Code

SCL Code	SCL Group	SCL Code Description
A01	Other	TABULATING CARDS
A02	Paper	LEDGER
A03	Other	NEWSPAPER
A04	Other	BOOKS AND MAGAZINES
A05	Paper	PAPER MIXED
A06	Paper	PLAIN AND CORRUGATED CARDBOARD
A07	Other	PAPER, MAP, SCRAP
A08	Other	COMPUTER PAPER
AB6	Paper	BALED/SHREDDED CARDBOARD
AB9	Paper	BALED/SHREDDED PAPER
C01	Other	BURLAP, INCLUDES OSNABURG
C02	Other	CANVAS
C03	Other	RAGS, MISCELLANEOUS, NOT COVERED IN OTHER SCL CODES
C04	Other	WEBBING
C05	Other	ROPE
C06	Other	RAYON RAGS
C07	Other	NYLON RAGS
C08	Other	WOOL RAGS
C09	Other	COTTON RAGS
C10	Other	SILK RAGS
C1A	Other	TEXTILE SCRAP, MISCELLANEOUS
C1B	Other	COTTON COMFORTERS, SCRAP
C1C	Other	COTTON MATTRESSES, SCRAP
C1D	Other	HAWSER, SCRAP
C1E	Other	POLYESTER, SCRAP
C1F	Other	PONCHO
C1G	Other	RUBBERIZED CLOTHING AND EQUIPMENT SCRAP
C1H	Other	SLEEPING BAGS SCRAP
CB6	Other	BALED/SHREDDED RAYON SCRAP
CB7	Other	BALED/SHREDDED NYLON SCRAP
CB8	Other	BALED/SHREDDED WOOL SCRAP
CB9	Other	BALED/SHREDDED COTTON SCRAP
D03	Other (Metallic)	BULLET METAL
D06	Other (Metallic)	MAGNESIUM
D09	Other (Metallic)	ZINC SCRAP
D1A	Aluminum	ALUMINUM SHEET
D1B	Other (Metallic)	ALUMINUM FOIL
D1C	Aluminum	ALUMINUM SOLIDS
D1D	Aluminum	IRONY ALUMINUM
D1E	Other (Metallic)	WRECKED AIRCRAFT
D1F	Aluminum	SWEATED ALUMINUM PIGS AND INGOTS
D1G	Other (Metallic)	ALUMINUM DROSS
D1H	Other (Metallic)	WRECKED HELICOPTERS
D1I	Aluminum	FIRE ALUMINUM
D1J	Aluminum	ALUMINUM, CAST
D1K	Other (Metallic)	ALUMINUM RADIATORS
D22	Brass and Copper	SMALL ARMS BRASS, .22 CALIBER EXPENDED CARTRIDGE CASES
D2A	Brass and Copper	MIXED CLEAN COPPER ALLOYS

Table IV-1(a)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Code

SCL Code	SCL Group	SCL Code Description
D2B	Brass and Copper	MIXED COPPER ALLOYS WITH FOREIGN ATTACHMENTS
D2C	Brass and Copper	MIXED COPPER BASED ALLOY BORINGS AND TRIMMINGS
D2D	Brass and Copper	RADIATORS, MADE OF COPPER BASE ALLOYS
D2E	Brass and Copper	BRASS FIRED TO INCLUDE BLANKS AND CARTRIDGE CASES
D30	Brass and Copper	SMALL ARMS BRASS, .30 CALIBER EXPENDED CARTRIDGE CASES
D38	Brass and Copper	SMALL ARMS BRASS, .38 CALIBER EXPENDED CARTRIDGE CASES
D3I	Brass and Copper	12 GAUGE SHOTGUN SHELLS, EXPENDED
D45	Brass and Copper	SMALL ARMS BRASS, .45 CALIBER EXPENDED CARTRIDGE CASES
D4A	Brass and Copper	CLEAN COPPER W/O ATTACHMENT
D4B	Brass and Copper	COPPER CABLE, LEAD COVERED
D4C	Brass and Copper	INSULATED COPPER WIRE CABLE
D4D	Brass and Copper	COPPER, WITH FOREIGN ATTACHMENTS
D4E	Brass and Copper	BRASS, WITHOUT FOREIGN ATTACHMENTS
D4F	Brass and Copper	BRASS, WITH FOREIGN ATTACHMENTS
D4H	Brass and Copper	BRONZE, WITHOUT FOREIGN ATTACHMENTS

D4I	Brass and Copper	BRONZE, WITH FOREIGN ATTACHMENTS
D4J	Other (Metallic)	ELECTRIC MOTOR, SCRAP, COPPER BEARING
D4K	Other (Metallic)	ARMOR CABLE, SCRAP
D4L	Other (Metallic)	TRANSFORMERS, SCRAP
D4M	Brass and Copper	CUPRO-NICKEL, WITHOUT FOREIGN ATTACHMENTS
D4N	Other (Metallic)	GILDING METAL
D4P	Brass and Copper	CUPRO-NICKEL, WITH FOREIGN ATTACHMENTS
D4R	Other (Metallic)	ELECTRIC AND ELECTRONIC RESIDUE NOT CONTAINING PRECIOUS METALS
D50	Brass and Copper	SMALL ARMS BRASS, .50 CALIBER EXPENDED CARTRIDGE CASES
D5D	Other (Metallic)	LEAD WITHOUT FOREIGN ATTACHMENTS
D5E	Other (Metallic)	OTHER GRADES OF LEAD
D5M	Brass and Copper	SMALL ARMS BRASS, 5.56 MM EXPENDED CARTRIDGE CASES
D7M	Brass and Copper	SMALL ARMS BRASS, 7.62 MM EXPENDED CARTRIDGE CASES
D9M	Brass and Copper	SMALL ARMS BRASS, 9.00 MM EXPENDED CARTRIDGE CASES
DLA	Aluminum	LOGGED/BUNDLED ALUMINUM
DLD	Aluminum	LOGGED/BUNDLED IRONY ALUMINUM
E1A	Steel and Iron	NO. 1 HEAVY MELTING STEEL
E1B	Steel and Iron	NO. 2 HEAVY MELTING STEEL
E1C	Steel and Iron	NO. 1 STEEL BUSHING
E1D	Steel and Iron	NO. 2 STEEL BUSHING
E1E	Steel and Iron	NO. 1 STEEL BUNDLES
E1F	Steel and Iron	NO. 2 STEEL BUNDLES
E1G	Steel and Iron	MIXED IRON AND STEEL BORINGS AND TURNINGS
E1H	Other	TIN CAN AND TERNE PLATE
E1I	Steel and Iron	UNPREPARED HEAVY MELTING IRON AND STEEL SCRAP
E1J	Steel and Iron	UNPREPARED LIGHT MELTING STEEL SUITABLE FOR COMP INTO NO. 1 BUNDLES
E1K	Steel and Iron	UNPREPARED LIGHT MELTING STEEL SUITABLE FOR COMM INTO NO. 2 BUNDLES
E1L	Steel and Iron	IRON AND STEEL SCRAP, MIXED WITH FOREIGN ATTACHMENTS
E1M	Steel and Iron	MISCELLANEOUS STEEL SCRAP
E1N	Steel and Iron	ENGINE BLOCKS, STRIPPED
E1O	Steel and Iron	STOVE SCRAP
E1Q	Steel and Iron	HEAVY BREAKABLE CAST
E1R	Steel and Iron	MIXED CAST

29.2

Table IV-1(a)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Code

SCL Code	SCL Group	SCL Code Description
E1S	Steel and Iron	TOOL STEEL
E1T	Steel and Iron	SMALL ARM PARTS REQUIRING FURTHER PROCESSING
E1U	Steel and Iron	STEEL TANK TRACK WITHOUT RUBBER PADS
E1V	Other	STEEL TANK TRACK WITH RUBBER PADS
E1W	Steel and Iron	STEEL CHAIN, ANCHORS
E2A	Steel and Iron	VEHICLES, COMMERCIAL AUTOS/TRUCKS
E2C	Steel and Iron	VEHICLES, TACTICAL, ALL TYPES
E2D	Steel and Iron	VEHICLES, ARMORED
E2E	Steel and Iron	VEHICLES, SPECIAL PURPOSE
E2F	Steel and Iron	TANK TRAILERS
ELS	Steel and Iron	LOGGED/BUNDLED LIGHT STEEL
ENA	Steel and Iron	APPLIANCES ELECTRICAL
EWG	Other	WHITE APPLIANCE GOODS
F01	Other	WOOD SCRAP
FSW	Other	SHREDDED WOOD
G01	Other	RUBBER TIRES, AIRCRAFT
G02	Other	RUBBER TIRES, VEHICULAR
G03	Other	RUBBER INNER TUBES, AIRCRAFT
G04	Other	RUBBER INNER TUBES, VEHICULAR
G05	Other	RUBBER SCRAP NOT OTHERWISE CLASSIFIABLE
GST	Other	SHREDDED RUBBER TIRES
H02	Other	CHEMICAL SCRAP AND RELATED MATERIALS NON PRECIOUS METAL BEARING
H03	Other	DEHYDRATING AGENT, GRADE A
H05	Other	CULLET
H06	Other	TILE, CONCRETE, BRICKS, CLAY AND CROCKERY
H07	Other	LEATHER
H08	Other	PLASTIC
H10	Other	ASHES, WASTE (COAL OR WOOD)
H11	Other	ELECTRONIC TUBE RESIDUE
H13	none	MISCELLANEOUS SCRAP NOT OTHERWISE CLASSIFIABLE
H14	Other	MAGNETIC TAPE
H19	Other	WAX SCRAP, AND RELATED MATERIALS
H24	none	UNSEGREGATED SCRAP
R1K	Other	MIXED RANGE RESIDUE

RET	Other	PROPERTY FOR RETAIL SALE
S00	Stainless Steel	STAINLESS STEEL SCRAP
S01	Stainless Steel	STAINLESS STEEL ALLOY GROUP 1, 7-13% NI, 17-19% CR
S02	Stainless Steel	STAINLESS STEEL ALLOY GROUP 2, 0-2% NI, 12-16% CR
S12	Stainless Steel	STAINLESS STEEL ALLOY GROUP 12, 4% NI, 17% CR
S17	Stainless Steel	STAINLESS STEEL ALLOY GROUP 17, 20% NI, 12-20% CR
S21	Stainless Steel	STAINLESS STEEL ALLOY GROUP 21, 14% NI, 14% CR
S24	Stainless Steel	STAINLESS STEEL ALLOY GROUP 24, 12% NI, 25% CR
S3A	Stainless Steel	STAINLESS STEEL, NONMAGNETIC
S3B	Other	STAINLESS STEEL, MAGNETIC
S3C	Stainless Steel	CHROME NICKEL
S3D	Stainless Steel	NICKEL, MISCELLANEOUS
SLO	Stainless Steel	LOGGED/BUNDLED STAINLESS STEEL

29.3

Table IV-1(a)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Code

SCL Code	SCL Group	SCL Code Description
T01	High Temp Alloys	HIGH TEMP ALLOYS NOT ASSIGNABLE TO A GROUP
T03	High Temp Alloys	HIGH TEMP ALLOY GROUP 3, 1010% NI, 12-16% CR, 50-67% CO
T04	High Temp Alloys	HIGH TEMP ALLOY GROUP 4, 55% NI, 16% CR
T05	High Temp Alloys	HIGH TEMP ALLOY GROUP 5, 2020% NI, 13-27% CR, 10-60% CO
T06	High Temp Alloys	HIGH TEMP ALLOY GROUP 6, 25% NI, 16% CR
T07	High Temp Alloys	HIGH TEMP ALLOY GROUP 7, 1-25% NI, 8-16% CR
T08	High Temp Alloys	HIGH TEMP ALLOY GROUP 8, 70-74% NI, 15% CR-IN CONEL
T09	High Temp Alloys	HIGH TEMP ALLOY GROUP 9, 20% NI, 20% CR, 40% CO
T10	High Temp Alloys	HIGH TEMP ALLOY GROUP 10, 60% NI, 30% CU-MONEL NOMINALLY
T14	High Temp Alloys	HIGH TEMP ALLOY GROUP 14, 12020% NI, 24-25% CR
T15	High Temp Alloys	HIGH TEMP ALLOY GROUP 15, 2-15% NI, 26-27% CR, 50-60% CO
T16	High Temp Alloys	HIGH TEMP ALLOY GROUP 16, 75-80% NI, 20-21% CR
T18	High Temp Alloys	HIGH TEMP ALLOY GROUP 18, 55% NI, 19% CR, 13% CO
T20	High Temp Alloys	HIGH TEMP ALLOY GROUP 20, 37% NI, 18% CR, 20% CO
T22	High Temp Alloys	HIGH TEMP ALLOY GROUP 22, 75% NI, 20% CR
T23	High Temp Alloys	HIGH TEMP ALLOY GROUP 23, 26-30% NI, 13-20% CR
T24	High Temp Alloys	UNSEGREGATED HIGH TEMPERATURE ALLOYS
T25	High Temp Alloys	HIGH TEMP ALLOY GROUP 25, 30% NI, 25% CR, 30% CO
T26	High Temp Alloys	HIGH TEMP ALLOY GROUP 26, 36% NI
T27	High Temp Alloys	HIGH TEMP ALLOY GROUP 27, 60% NI, 15% CR
T28	High Temp Alloys	HIGH TEMP ALLOY GROUP 28, 60% NI, 25% CR, 12% CO
T29	High Temp Alloys	HIGH TEMP ALLOY GROUP 29, 58% NI, 19% CR, 18% CO
T30	High Temp Alloys	HIGH TEMP ALLOY GROUP 30, 64% NI, 8% CR, 10% CO
T32	High Temp Alloys	HIGH TEMP ALLOY GROUP 32, 45% NI, 22% CR, 1.5% CO
T33	High Temp Alloys	HIGH TEMP ALLOY GROUP 33, 35% NI, 15% CR
T55	High Temp Alloys	HIGH TEMP ALLOY GROUP 55, 90% W (TUNGSTEN)
T60	High Temp Alloys	HIGH TEMP ALLOY GROUP 60, 80% TI (TITANIUM)
T62	High Temp Alloys	HIGH TEMP ALLOY GROUP 62, BERYLLIUM (BE)
T65	High Temp Alloys	TANTALUM
T66	High Temp Alloys	GERMANIUM

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Table IV-1(b)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Group

SCL Code	SCL Group	SCL Code Description
D1A	Aluminum	ALUMINUM SHEET
D1C	Aluminum	ALUMINUM SOLIDS
D1D	Aluminum	IRONY ALUMINUM
D1F	Aluminum	SWEATED ALUMINUM PIGS AND INGOTS
D1I	Aluminum	FIRED ALUMINUM
D1J	Aluminum	ALUMINUM, CAST
DLA	Aluminum	LOGGED/BUNDLED ALUMINUM
DLD	Aluminum	LOGGED/BUNDLED IRONY ALUMINUM
D22	Brass and Copper	SMALL ARMS BRASS, .22 CALIBER EXPENDED CARTRIDGE CASES
D2A	Brass and Copper	MIXED CLEAN COPPER ALLOYS
D2B	Brass and Copper	MIXED COPPER ALLOYS WITH FOREIGN ATTACHMENTS
D2C	Brass and Copper	MIXED COPPER BASED ALLOY BORINGS AND TRIMMINGS
D2D	Brass and Copper	RADIATORS, MADE OF COPPERS BASE ALLOYS
D2E	Brass and Copper	BRASS, FIRED, TO INCLUDE BLANKS AND CARTRIDGE CASES
D30	Brass and Copper	SMALL ARMS BRASS, .30 CALIBER EXPENDED CARTRIDGE CASES

D38	Brass and Copper	SMALL ARMS BRASS, .38 CALIBER EXPENDED CARTRIDGE CASES
D3I	Brass and Copper	12 GAUGE SHOTGUN SHELLS, EXPENDED
D45	Brass and Copper	SMALL ARMS BRASS, .45 CALIBER EXPENDED CARTRIDGE CASES
D4A	Brass and Copper	CLEAN COPPER W/O ATTACHMENT
D4B	Brass and Copper	COPPER CABLE, LEAD COVERED
D4C	Brass and Copper	INSULATED COPPERS WIRE CABLE
D4D	Brass and Copper	COPPER, WITH FOREIGN ATTACHMENTS
D4E	Brass and Copper	BRASS, WITHOUT FOREIGN ATTACHMENTS
D4F	Brass and Copper	BRASS, WITH FOREIGN ATTACHMENTS
D4H	Brass and Copper	BRONZE, WITHOUT FOREIGN ATTACHMENTS
D4I	Brass and Copper	BRONZE, WITH FOREIGN ATTACHMENTS
D4M	Brass and Copper	CUPRO-NICKEL, WITHOUT FOREIGN ATTACHMENTS
D4P	Brass and Copper	CUPRO-NICKEL, WITH FOREIGN ATTACHMENTS
D50	Brass and Copper	SMALL ARMS BRASS, .50 CALIBER EXPENDED CARTRIDGE CASES
D5M	Brass and Copper	SMALL ARMS BRASS, 5.56 MM EXPENDED CARTRIDGE CASES
D7M	Brass and Copper	SMALL ARMS BRASS, 7.62 MM EXPENDED CARTRIDGE CASES
D9M	Brass and Copper	SMALL ARMS BRASS, 9.00 MM EXPENDED CARTRIDGE CASES
E1A	Steel and Iron	NO. 1 HEAVY MELTING STEEL
E1B	Steel and Iron	NO. 2 HEAVY MELTING STEEL
E1C	Steel and Iron	NO. 1 STEEL BUSHELING
E1D	Steel and Iron	NO. 2 STEEL BUSHELING
E1E	Steel and Iron	NO. 1 STEEL BUNDLES
E1F	Steel and Iron	NO. 2 STEEL BUNDLES
E1G	Steel and Iron	MIXED IRON AND STEEL BORINGS AND TURNINGS
E1I	Steel and Iron	UNPREPARED HEAVY MELTING IRON AND STEEL SCRAP
E1J	Steel and Iron	UNPREPARED LIGHT MELTING STEEL SUITABLE FOR COMP INTO NO. 1 BUNDLES
E1K	Steel and Iron	UNPREPARED LIGHT MELTING STEEL SUITABLE FOR COMM INTO NO. 2 BUNDLES
E1L	Steel and Iron	IRON AND STTEEL SCRAP, MIXED WITH FOREIGN ATTACHMENTS
E1M	Steel and Iron	MISCELLANEOUS STEEL SCRAP
E1N	Steel and Iron	ENGINE BLOCKS STRIPPED

29.5

Table IV-1(b)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Group

SCL Code	SCL Group	SCL Code Description
E1O	Steel and Iron	STOVE SCRAP
E1Q	Steel and Iron	HEAVY BREAKABLE CAST
E1R	Steel and Iron	MIXED CAST
E1S	Steel and Iron	TOOL STEEL
E1T	Steel and Iron	SMALL ARM PARTS REQUIRING FURTHER PROCESSING
E1U	Steel and Iron	STEEL TANK TRACK WITHOUT RUBBER PADS
E1W	Steel and Iron	STEEL CHAIN, ANCHORS
E2A	Steel and Iron	VEHICLES, COMMERCIAL AUTOS/TRUCKS
E2C	Steel and Iron	VEHICLES, TACTICAL, ALL TYPES
E2D	Steel and Iron	VEHICLES, ARMORED
E2E	Steel and Iron	VEHICLES, SPECIAL PURPOSE
E2F	Steel and Iron	TANK TRAILERS
ELS	Steel and Iron	LOGGED/BUNDLED LIGHT STEEL
ENA	Steel and Iron	APPLIANCES ELECTRICAL
T01	High Temp Alloys	HIGH TEMP ALLOYS NOT ASSIGNABLE TO A GROUP
T03	High Temp Alloys	HIGH TEMP ALLOY GROUP 3, 1010% NI, 12-16% CR, 50-67% CO
T04	High Temp Alloys	HIGH TEMP ALLOY GROUP 4, 55% NI, 16% CR
T05	High Temp Alloys	HIGH TEMP ALLOY GROUP 5, 2020% NI, 13-27% CR, 10-60% CO
T06	High Temp Alloys	HIGH TEMP ALLOY GROUP 6, 25% NI, 16% CR
T07	High Temp Alloys	HIGH TEMP ALLOY GROUP 7, 1-25% NI, 8-16% CR
T08	High Temp Alloys	HIGH TEMP ALLOY GROUP 8, 70-74% NI, 15% CR-IN CONEL
T09	High Temp Alloys	HIGH TEMP ALLOY GROUP 9, 20% NI, 20% CR, 40% CO
T10	High Temp Alloys	HIGH TEMP ALLOY GROUP 10, 60% NI, 30% CU-MONEL NOMINALLY
T14	High Temp Alloys	HIGH TEMP ALLOY GROUP 14, 12020% NI, 24-25% CR
T15	High Temp Alloys	HIGH TEMP ALLOY GROUP 15, 2-15% NI, 26-27% CR, 50-60% CO
T16	High Temp Alloys	HIGH TEMP ALLOY GROUP 16, 75-80% NI, 20-21% CR
T18	High Temp Alloys	HIGH TEMP ALLOY GROUP 18, 55% NI, 199% CR, 13% CO
T20	High Temp Alloys	HIGH TEMP ALLOY GROUP 20, 37% NI, 18% CR, 20% CO
T22	High Temp Alloys	HIGH TEMP ALLOY GROUP 22, 75% NI, 20% CR
T23	High Temp Alloys	HIGH TEMP ALLOY GROUP 23, 26-30% NI, 13-20% CR
T24	High Temp Alloys	UNSEGREGATED HIGH TEMPERATURE ALLOYS
T25	High Temp Alloys	HIGH TEMP ALLOY GROUP 25, 30% NI, 25% CR, 30% CO
T26	High Temp Alloys	HIGH TEMP ALLOY GROUP 26, 36% NI
T27	High Temp Alloys	HIGH TEMP ALLOY GROUP 27, 60% NI, 15% CR
T28	High Temp Alloys	HIGH TEMP ALLOY GROUP 28, 60% NI, 25% CR, 12% CO
T29	High Temp Alloys	HIGH TEMP ALLOY GROUP 29, 58% NI, 19% CR, 18% CO
T30	High Temp Alloys	HIGH TEMP ALLOY GROUP 30, 64% NI, 8% CR, 10% CO

T32	High Temp Alloys	HIGH TEMP ALLOY GROUP 32, 45% NI, 22% CR, 1.5% CO
T33	High Temp Alloys	HIGH TEMP ALLOY GROUP 33, 35% NI, 15% CR
T55	High Temp Alloys	HIGH TEMP ALLOY GROUP 55, 90% W (TUNGSTEN)
T60	High Temp Alloys	HIGH TEMP ALLOY GROUP 60, 80% TI (TITANIUM)
T62	High Temp Alloys	HIGH TEMP ALLOY GROUP 62, BERYLLIUM (BE)
T65	High Temp Alloys	TANTALUM
T66	High Temp Alloys	GERMANIUM

29.6

Table IV-1(b)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Group

SCL Code	SCL Group	SCL Code Description
S00	Stainless Steel	STAINLESS STEEL SCRAP
S01	Stainless Steel	STAINLESS STEEL ALLOY GROUP 1, 7-13% NI, 17-19% CR
S02	Stainless Steel	STAINLESS STEEL ALLOY GROUP 2, 0-2% NI, 12-16% CR
S12	Stainless Steel	STAINLESS STEEL ALLOY GROUP 12, 4% NI, 17% CR
S17	Stainless Steel	STAINLESS STEEL ALLOY GROUP 17, 20% NI, 12-20% CR
S21	Stainless Steel	STAINLESS STEEL ALLOY GROUP 21, 14% NI, 14% CR
S24	Stainless Steel	STAINLESS STEEL ALLOY GROUP 24, 12% NI, 25% CR
S3A	Stainless Steel	STAINLESS STEEL, NONMAGNETIC
S3C	Stainless Steel	CHROME NICKEL
S3D	Stainless Steel	NICKEL, MISCELLANEOUS
SLO	Stainless Steel	LOGGED/BUNDLED STAINLESS STEEL
A02	Paper	LEDGER
A05	Paper	PAPER MIXED
A06	Paper	PLAIN AND CORRUGATED CARDBOARD
AB6	Paper	BALED/SHREDDED CARDBOARD
AB9	Paper	BALED/SHREDDED PAPER
D03	Other (Metallic)	BULLET METAL
D06	Other (Metallic)	MAGNESIUM
D09	Other (Metallic)	ZINC SCRAP
D1B	Other (Metallic)	ALUMINUM FOIL
D1E	Other (Metallic)	WRECKED AIRCRAFT
D1G	Other (Metallic)	ALUMINUM DROSS
D1H	Other (Metallic)	WRECKED HELICOPTERS
D1K	Other (Metallic)	ALUMINUM RADIATORS
D4J	Other (Metallic)	ELECTRIC MOTOR, SCRAP, COPPER BEARING
D4K	Other (Metallic)	ARMOR CABLE, SCRAP
D4L	Other (Metallic)	TRANSFORMERS, SCRAP
D4N	Other (Metallic)	GILDING METAL
D4R	Other (Metallic)	ELECTRIC AND ELECTRONIC RESIDUE NOT CONTAINING PRECIOUS METALS
D5D	Other (Metallic)	LEAD WITHOUT FOREIGN ATTACHMENTS
D5E	Other (Metallic)	OTHER GRADES OF LEAD
A01	Other	TABULATING CARDS
A03	Other	NEWSPAPER
A04	Other	BOOKS AND MAGAZINES
A07	Other	PAPER, MAP, SCRAP
A08	Other	COMPUTER PAPER
C01	Other	BURLAP, INCLUDES OSNABURG
C02	Other	CANVAS
C03	Other	RAGS, MISCELLANEOUS, NOT COVERED IN OTHER SCL CODES
C04	Other	WEBBING
C05	Other	ROPE
C06	Other	RAYON RAGS
C07	Other	NYLON RAGS
C08	Other	WOOL RAGS
C09	Other	COTTON RAGS
C10	Other	SILK RAGS

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Table IV-1(b)
Product Pool SCL Codes, SCL Group and SCL Code Description
Sorted by SCL Group

SCL Code	SCL Group	SCL Code Description
C1A	OTHER	TEXTILE SCRAP, MISCELLANEOUS
C1B	OTHER	COTTON COMFORTERS, SCRAP
C1C	OTHER	COTTON MATTRESSES, SCRAP
C1D	OTHER	HAWSER, SCRAP

C1E	OTHER	POLYESTER, SCRAP
C1F	OTHER	PONCHO
C1G	OTHER	RUBBERIZED CLOTHING AND EQUIPMENT SCRAP
C1H	OTHER	SLEEPING BAGS SCRAP
CB6	OTHER	BALED/SHREDDED RAYON SCRAP
CB7	OTHER	BALED/SHREDDED NYLON SCRAP
CB8	OTHER	BALED/SHREDDED WOOL SCRAP
CB9	OTHER	BALED/SHREDDED COTTON SCRAP
E1H	OTHER	TIN CAN AND TERNE PLATE
E1V	OTHER	STEEL TANK TRACK WITH RUBBER PADS
EWG	OTHER	WHITE APPLIANCE GOODS
F01	OTHER	WOOD SCRAP
FSW	OTHER	SHREDDED WOOD
G01	OTHER	RUBBER TIRES, AIRCRAFT
G02	OTHER	RUBBER TIRES, VEHICULAR
G03	OTHER	RUBBER INNER TUBES, AIRCRAFT
G04	OTHER	RUBBER INNER TUNES, VEHICULAR
G05	OTHER	RUBBER SCRAP NOT OTHERWISE CLASSIFIABLE
GST	OTHER	SHREDDED RUBBER TIRES
H02	OTHER	CHEMICAL SCRAP AND RELATED MATERIALS NON PRECIOUS METAL BEARING
H03	OTHER	DEHYDRATING AGENT, GRADE A
H05	OTHER	CULLET
H06	OTHER	TILE, CONCRETE, BRICKS, CLAY AND CROCKERY
H07	OTHER	LEATHER
H08	OTHER	PLASTIC
H10	OTHER	ASHES, WASTE (COAL, OR WOOD)
H11	OTHER	ELECTRONIC TUBE RESIDUE
H14	OTHER	MAGNETIC TAPE
H19	OTHER	WAX SCRAP, AND RELATED MATERIALS
R1K	OTHER	MIXED RANGE RESIDUE
RET	OTHER	PROPERTY FOR RETAIL SALE
S3B	OTHER	STAINLESS STEEL, MAGNETIC
H13	Miscellaneous	MISCELLANEOUS SCRAP NOT OTHERWISE CLASSIFIABLE
H24	Miscellaneous	UNSEGREGATED SCRAP

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Table IV-2
Product Pool Item Descriptions for “DEMIL as a Condition of Sale”
by DRMS Commodity Group and FSC Code

FSC	DRMS Commodity Group	FSC Description
1005 - 1450	Various	Textual labels applied by procurement authorities to these FSCs employ military ordinance terminology that would mislead prospective offerors if read literally. The items included in this sale from these FSCs are various types of equipment and materials that serve ordinary commercial or industrial purposes. There is no weaponry or ordinance included in this sale from these FSCs or from any other FSC.
1510	Aircraft Related	AIRCRAFT, FIXED WING
1520	Aircraft Related	AIRCRAFT, ROTARY WING
1560	Aircraft Related	AIRFRAME STRUCTURAL COMPONENTS
1610	Aircraft Related	AIRCRAFT PROPELLERS
1615	Aircraft Related	HELICOPTER ROTOR BLADES, DRIVE MECHANISMS AND COMPONENTS
1620	Aircraft Related	AIRCRAFT LANDING GEAR COMPONENTS
1630	Aircraft Related	AIRCRAFT WHEEL AND BRAKE SYSTEMS
1650	Aircraft Related	AIRCRAFT HYDRAULIC, VACUUM AND DE-ICING SYSTEM COMPONENTS
1660	Aircraft Related	AIRCRAFT AIR CONDITION, HEATING AND PRESSURIZING EQUIPMENT
1670	Aircraft Related	PARACHUTES, AERIAL PICK UP, DELIVERY, RECOVERY SYSTEMS
1680	Aircraft Related	MISCELLANEOUS AIRCRAFT ACCESSORIES AND COMPONENTS
1710	Guided Missile, Launching Equip	AIRCRAFT ARRESTING, BARRIER AND BARRICADE EQUIPMENT
1720	Guided Missile, Launching Equip	AIRCRAFT LAUNCHING EQUIPMENT
1730	Guided Missile, Launching Equip	AIRCRAFT GROUND SERVICING EQUIPMENT
1740	Guided Missile, Launching Equip	AIRFIELD SPECIALIZED TRUCKS AND TRAILERS
1830	Aircraft Related	SPACE VEHICLE REMOTE CONTROL SYSTEMS
1905	Marine & Support Equipment	COMBAT SHIPS AND LANDING VESSELS
2010	Marine & Support Equipment	SHIP AND BOAT PROPULSION COMPONENTS
2320	Vehicles	TRUCKS AND TRUCK TRACTORS, WHEELED
2350	Vehicles	COMBAT, ASSAULT AND TACTICAL VEHICLES, TRACKED
2510	Vehicles	VEHICULAR CAB, BODY AND FRAME STRUCTURAL COMPONENTS
2520	Vehicles	VEHICULAR POWER TRANSMISSION COMPONENTS
2530	Vehicles	VEHICULAR BRAKE, STEERING, AXLE, WHEEL AND TRACT COMPONENTS

2540	Vehicles	VEHICULAR FURNITURE AND ACCESSORIES
2590	Vehicles	MISCELLANEOUS VEHICULAR COMPONENTS
2815	Vehicles	DIESEL ENGINES AND COMPONENTS
2825	Vehicles	STEAM TURBINES AND COMPONENTS
2835	Vehicles	GAS TURBINES AND JET ENGINES, EXCEPT AIRCRAFT AND COMPONENTS
2840	Vehicles	GAS TURBINES AND JET ENGINES, AIRCRAFT AND COMPONENTS
2915	Vehicles	ENGINE FUEL SYSTEM COMPONENTS, AIRCRAFT
2920	Vehicles	ENGINE ELECTRICAL SYSTEM COMPONENTS, NONAIRCRAFT
2925	Vehicles	ENGINE ELECTRICAL SYSTEM COMPONENTS, AIRCRAFT
2935	Vehicles	ENGINE COOLING SYSTEM COMPONENTS, AIRCRAFT
2945	Vehicles	ENGINE AIR AND OIL FILTERS, STRAINERS AND CLEANERS, AIRCRAFT
2950	Vehicles	TURBOSUPERCHARGERS
2990	Vehicles	MISCELLANEOUS ENGINE ACCESSORIES, NONAIRCRAFT
2995	Vehicles	MISCELLANEOUS ENGINE ACCESSORIES, AIRCRAFT
3010	Machinery & Industry Equipment	TORQUE CONVERTERS AND SPEED CHANGERS
3020	Machinery & Industry Equipment	GEARS, PULLEYS, SPROCKETS AND TRANSMISSION CHAIN
3040	Machinery & Industry Equipment	MISCELLANEOUS POWER TRANSMISSION EQUIPMENT
3110	Bearings	BEARINGS, ANTI-FRICTION, UNMOUNTED
3120	Bearings	BEARINGS, PLAIN, UNMOUNTED
3130	Bearings	BEARINGS, MOUNTED
3419	Machinery & Industry Equipment	MISCELLANEOUS MACHINE TOOLS
3441	Machinery & Industry Equipment	BENDING AND FORMING MACHINES
3655	Service, Trade & Special Industry Equipment	GAS GENERATING AND DISPENSING SYSTEMS, FIXED OR MOBILE
3835	Tractors, Railroad & Construction Equipment	PETROLEUM PRODUCTION AND DISTRIBUTION EQUIPMENT
3990	Agricultural, MHE & Support Equipment	MISC MATERIALS HANDLING EQUIPMENT
4010	Marine & Support Equipment	CHAIN AND WIRE ROPE
4140	Plumbing & Air Treatment Equipment	FANS, AIR CIRCULATORS AND BLOWER EQUIPMENT
4210	Service, Trade & Special Industry Equipment	FIRE FIGHTING EQUIPMENT
4220	Service, Trade & Special Industry Equipment	MARINE LIFESAVING AND DIVING EQUIPMENT
4230	Service, Trade & Special Industry Equipment	DECONTAMINATING AND IMPREGNATING EQUIPMENT
4240	Service, Trade & Special Industry Equipment	SAFETY AND RESCUE EQUIPMENT
4320	Plumbing & Air Treatment Equipment	POWER AND HAND PUMPS
4330	Plumbing & Air Treatment Equipment	CENTRIFUGALS, SEPARATORS AND PRESSURE AND VACUUM FILTERS
4420	Plumbing & Air Treatment Equipment	HEAT EXCHANGERS AND STEAM CONDENSERS

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Table IV-2
Product Pool Item Descriptions for “DEMIL as a Condition of Sale”
by DRMS Commodity Group and FSC Code

FSC	DRMS Commodity Group	FSC Description
4710	Plumbing & Air Treatment Equipment	PIPE AND TUBE
4720	Plumbing & Air Treatment Equipment	HOSE AND TUBING, FLEXIBLE
4730	Plumbing & Air Treatment Equipment	FITTINGS AND SPECIALTIES; HOSE, PIPE AND TUBE
4810	Plumbing & Air Treatment Equipment	VALVES, POWERED
4820	Plumbing & Air Treatment Equipment	VALVES, NONPOWERED
4910	Agricultural, MHE & Support Equipment	MOTOR VEHICLE MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT
4920	Agricultural, MHE & Support Equipment	AIRCRAFT MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT
4921	Agricultural, MHE & Support Equipment	TORPEDO MAINTENANCE, REPAIR AND CHECKOUT SPECIALIZED EQUIPMENT
4925	Agricultural, MHE & Support Equipment	AMMO MAINTENANCE, REPAIR AND CHECKOUT SPECIALIZED EQUIPMENT
4930	Agricultural, MHE & Support Equipment	LUBRICATION AND FUEL DISPENSING EQUIPMENT
4931	Agricultural, MHE & Support Equipment	FIRE CONTROL MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT
4933	Agricultural, MHE & Support Equipment	WEAPONS MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT
4935	Agricultural, MHE & Support Equipment	GUIDED MISSILE MAINTENANCE, REPAIR CHECKOUT SPECIALIZED EQUIPMENT
4940	Agricultural, MHE & Support Equipment	MISC MAINTENANCE AND REPAIR SHOP SPECIALIZED EQUIPMENT
5110	Misc	HAND TOOLS, EDGED, NONPOWERED
5180	Misc	SETS, KITS AND OUTFITS OF HAND TOOLS
5305	Building Materials, Construction Materials, & Prefab	SCREWS
5306	Building Materials, Construction Materials, & Prefab	BOLTS
5310	Building Materials, Construction Materials, & Prefab	NUTS AND WASHERS
5315	Building Materials, Construction Materials, & Prefab	NAILS, KEYS AND PINS
5320	Building Materials, Construction Materials, & Prefab	RIVETS
5325	Building Materials, Construction Materials, & Prefab	FASTENING DEVICES
5330	Building Materials, Construction Materials, & Prefab	PACKING AND GASKET MATERIALS
5340	Building Materials, Construction Materials, & Prefab	MISCELLANEOUS HARDWARE

5342	Building Materials, Construction Materials, & Prefab	HARDWARE, WEAPON SYSTEM
5355	Building Materials, Construction Materials, & Prefab	KNOBS AND POINTERS
5360	Building Materials, Construction Materials, & Prefab	COIL, FLAT AND WIRE SPRINGS
5365	Building Materials, Construction Materials, & Prefab	RINGS, SHIMS AND SPACERS
5420	Building Materials, Construction Materials, & Prefab	BRIDGES, FIXED AND FLOATING
5805	Electrical & Electronics	TELEPHONE AND TELEGRAPH EQUIPMENT
5810	Electrical & Electronics	COMMUNICATIONS SECURITY EQUIPMENT AND COMPONENTS
5811	Electrical & Electronics	OTHER CRYPTOLOGIC EQUIPMENT AND COMPONENTS
5815	Electrical & Electronics	TELETYPE AND FACSIMILE EQUIPMENT
5820	Electrical & Electronics	RADIO AND TELEVISION COMMUNICATION EQUIPMENT, EXCEPT AIRBORNE
5821	Electrical & Electronics	RADIO AND TELEVISION COMMUNICATION EQUIPMENT, AIRBORNE
5825	Electrical & Electronics	RADIO NAVIGATION EQUIPMENT, EXCEPT AIRBORNE
5826	Electrical & Electronics	RADIO NAVIGATION EQUIPMENT, AIRBORNE
5830	Electrical & Electronics	INTERCOMMUNICATION AND PUBLIC ADDRESS SYSTEMS, EXCEPT AIRBORNE
5831	Electrical & Electronics	INTERCOMMUNICATION AND PUBLIC ADDRESS SYSTEMS, AIRBORNE
5835	Electrical & Electronics	SOUND RECORDING AND REPRODUCING EQUIPMENT
5836	Electrical & Electronics	VIDEO RECORDING AND REPRODUCING EQUIPMENT
5840	Electrical & Electronics	RADAR EQUIPMENT, EXCEPT AIRBORNE
5841	Electrical & Electronics	RADAR EQUIPMENT, AIRBORNE
5845	Electrical & Electronics	UNDERWATER SOUND EQUIPMENT
5850	Electrical & Electronics	VISIBLE AND INVISIBLE LIGHT COMMUNICATION EQUIPMENT
5855	Electrical & Electronics	NIGHT VISION EQUIPMENT, EMITTED AND REFLECTED RADIATION
5860	Electrical & Electronics	STIMULATED COHERENT RADIATION DEVICES COMPONENTS/ACCESSORIES
5865	Electrical & Electronics	ELECTRONIC COUNTERMEASURES, COUNTER-COUNTER MEASURES
5895	Electrical & Electronics	MISCELLANEOUS COMMUNICATION EQUIPMENT
5915	Electrical & Electronics	FILTERS AND NETWORKS
5920	Electrical & Electronics	FUSES AND LIGHTNING ARRESTERS
5930	Electrical & Electronics	SWITCHES
5935	Electrical & Electronics	CONNECTORS, ELECTRICAL
5940	Electrical & Electronics	LUGS, TERMINALS AND TERMINAL STRIPS
5945	Electrical & Electronics	RELAYS AND SOLENOIDS
5955	Electrical & Electronics	PIEZOELECTRIC CRYSTALS
5960	Electrical & Electronics	ELECTRON TUBES AND ASSOCIATED HARDWARE
5961	Electrical & Electronics	SEMICONDUCTOR DEVICES AND ASSOCIATED HARDWARE
5962	Electrical & Electronics	MICROCIRCUITS, ELECTRONIC
5963	Electrical & Electronics	ELECTRONIC MODULES
5965	Electrical & Electronics	HEADSETS, HANDSETS, MICROPHONES AND SPEAKERS
5975	Electrical & Electronics	ELECTRICAL HARDWARE AND SUPPLIES
5985	Electrical & Electronics	ANTENNAS, WAVEGUIDE AND RELATED EQUIPMENT
5990	Electrical & Electronics	SYNCHROS AND RESOLVERS

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Table IV-2
Product Pool Item Descriptions for “DEMIL as a Condition of Sale”
by DRMS Commodity Group and FSC Code

FSC	DRMS Commodity Group	FSC Description
5995	Electrical & Electronics	CABLE, CORD AND WIRE ASSEMBLIES, COMMUNICATION EQUIPMENT
5996	Electrical & Electronics	AMPLIFIERS
5998	Electrical & Electronics	ELECTRICAL AND ELECTRONIC ASSEMBLIES, BOARDS, CARDS, AND ASSOC HARDWARE
5999	Electrical & Electronics	MISCELLANEOUS ELECTRICAL AND ELECTRONIC COMPONENTS
6035	Electrical & Electronics	FIBER OPTIC LIGHT TRANSFER AND IMAGE TRANSFER DEVICES
6105	Electrical & Electronics	MOTORS, ELECTRICAL
6110	Electrical & Electronics	ELECTRICAL CONTROL EQUIPMENT
6115	Electrical & Electronics	GENERATORS AND GENERATOR SETS, ELECTRICAL
6125	Electrical & Electronics	CONVERTERS, ELECTRICAL, ROTATING
6130	Electrical & Electronics	CONVERTERS, ELECTRICAL, NONROTATING
6150	Electrical & Electronics	MISCELLANEOUS ELECTRIC POWER AND DISTRIBUTION EQUIPMENT
6160	Electrical & Electronics	MISCELLANEOUS BATTERY RETAINING FIXTURES AND LINERS
6210	Electrical & Electronics	INDOOR AND OUTDOOR ELECTRIC LIGHTING FIXTURES
6220	Electrical & Electronics	ELECTRIC VEHICULAR LIGHTS AND FIXTURES
6230	Electrical & Electronics	ELECTRIC PORTABLE AND HAND LIGHTING EQUIPMENT
6320	Electrical & Electronics	SHIPBOARD ALARM AND SIGNAL SYSTEMS
6340	Electrical & Electronics	AIRCRAFT ALARM AND SIGNAL SYSTEMS
6350	Electrical & Electronics	MISCELLANEOUS ALARM, SIGNAL AND SECURITY DETECTION SYSTEMS
6605	Marine & Support Equipment	NAVIGATIONAL INSTRUMENTS
6610	Marine & Support Equipment	FLIGHT INSTRUMENTS

6615	Marine & Support Equipment	AUTOMATIC PILOT MECHANISMS AND AIRBORNE GYRO COMPONENTS
6620	Marine & Support Equipment	ENGINE INSTRUMENTS
6625	Marine & Support Equipment	ELECTRICAL/ELECTRONIC PROPERTIES MEASURING/TESTING INSTRUMENTS
6635	Marine & Support Equipment	PHYSICAL PROPERTIES TESTING EQUIPMENT
6645	Marine & Support Equipment	TIME MEASURING INSTRUMENTS
6650	Marine & Support Equipment	OPTICAL INSTRUMENTS
6660	Marine & Support Equipment	METEOROLOGICAL INSTRUMENTS AND APPARATUS
6665	Marine & Support Equipment	HAZARD-DETECTING INSTRUMENTS AND APPARATUS
6675	Marine & Support Equipment	DRAFTING, SURVEYING AND MAPPING INSTRUMENTS
6680	Marine & Support Equipment	LIQUID/GAS FLOW, LIQUID LEVEL/MECHANICAL MOTION MEASURING INSTRUMENTS
6685	Marine & Support Equipment	PRESSURE, TEMPERATURE/HUMIDITY MEASURING/CONTROLLING INSTRUMENT
6695	Marine & Support Equipment	COMBINATION AND MISCELLANEOUS INSTRUMENTS
6720	Misc	CAMERAS, STILL PICTURE
6760	Misc	PHOTOGRAPHIC EQUIPMENT AND ACCESSORIES
6910	Office Machines & some military training equip	TRAINING AIDS
6920	Office Machines & some military training equip	ARMAMENT TRAINING DEVICES
6930	Office Machines & some military training equip	OPERATION TRAINING DEVICES
6940	Office Machines & some military training equip	COMMUNICATION TRAINING DEVICES
7010	Electrical & Electronics	ADPE SYSTEM CONFIGURATION
7021	Electrical & Electronics	ADP CENTRAL PROCESSING UNIT, DIGITAL
7025	Electrical & Electronics	ADP INPUT/OUTPUT AND STORAGE DEVICES
7035	Electrical & Electronics	ADP SUPPORT EQUIPMENT
7045	Electrical & Electronics	ADP SUPPLIES AND SUPPORT EQUIPMENT
7050	Electrical & Electronics	ADP COMPONENTS
7220	Household	FLOOR COVERINGS
8105	Building Materials, Construction Materials, & Prefab	BAGS AND SACKS
8140	Building Materials, Construction Materials, & Prefab	AMMO AND NUCLEAR ORDNANCE BOXES, PACKAGES AND SPECIAL CONTAINERS
8470	Textiles, clothing, footwear	ARMOR, PERSONAL
8475	Textiles, clothing, footwear	SPECIALIZED FLIGHT CLOTHING AND ACCESSORIES
9515	Ferrous Materials	PLATE, SHEET, STRIP AND FOIL IRON AND STEEL
9999	Misc	MISCELLANEOUS ITEMS (CANNOT CONCEIVABLY BE CLASSIFIED ELSEWHERE)

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V. TERMS AND CONDITIONS OF SALE

The following General Information and Instructions and Special Conditions of Sale contained in the Defense Reutilization and Marketing Service pamphlet entitled "Sale by Reference - Instructions, Terms and Conditions Applicable to Department of Defense Personal Property Offered for Sale by Defense Reutilization and Marketing Service, March 1994" (hereinafter, "Sale by Reference"; a copy of the Sale by Reference is included as Attachment V), are hereby incorporated by reference and become a part of this IFB and any resulting contract:

Part 1: General Information and Instructions: All Conditions, except Condition Nos. 3 and 4; and, No. 6 should conclude with, ". . .paid by the Purchaser."

Part 2: General Sale Terms and Conditions: All Conditions, except Condition Nos. 4, 7, 12, 14, 28, 29, 30, and 33.

Part 4: Special Sealed Bid - Term Conditions: All Conditions, except Articles A, D and E.

Part 5: Additional Special Circumstance Conditions, as follows:

Article D: Liability and Insurance
Article F: Privacy Act Materials
Article H: Radio Frequency Devices
Article L: Medical Devices

Part 6: Demilitarization and Mutilation: Articles A, B, G, H and I.

The following Conditions from Part 7: Additional Special Circumstance Conditions -Hazardous and Dangerous Property:

Article E: Dangerous Property
Article Q: Cartridge Cases
Article V: Certified and Non-Certified Radiation Emitting Electronic Products

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VI. ADDITIONAL TERMS AND CONDITIONS OF SALE

The following Articles (not part of the Sale By Reference) also apply and constitute terms and conditions of sale.

ARTICLE ONE. BIDDING AND CONTRACT AWARD

Section 1. Bid Deposit.

Each bid must be accompanied by a refundable Bid Deposit in the form of a guaranteed instrument (credit card, cashier's check or money order) payable to "U.S. Treasury," in the amount of twenty thousand dollars (\$20,000,00).

Section 2. Bids and Bid Evaluation.

(A) Bid Price.

Award of the sale contract will be made to the technically acceptable, responsive, responsible bidder that offers the bid with the highest "Bid Price" for the Property and tenders payment of the "Bid Price" as provided in Section 1(A) of Article 5. The "Bid Price" shall be as set forth on the bidder's Bid Forms, must be expressed in whole U.S. dollars, and must exceed zero.

(B) Award.

The Government reserves the right **(i)** not to award a contract if such contract is deemed not to be in the Government's best interest, or **(ii)** to reject any particular bid if DRMS determines that accepting such bid would not be in the Government's best interest.

Section 3. Contractor Credit Facility; Key Persons; Contract Award.

(A) Contractor Credit Facility.

After the bids are opened and evaluated by DRMS, the SCO will serve notice ("Notice of Intent to Award") to the bidder offering the bid with the highest Bid Price (the "Apparent Successful Offeror"). The Notice of Intent to Award shall notify the Apparent Successful Offeror that, within ten (10) days of such notice, the bidder must submit to the SCO a written commitment from a federally insured financial institution that, if a contract is awarded by DRMS to the bidder within the subsequent four months, and subject to such reasonable conditions that the financial institution specifies, such financial institution will provide to the bidder a credit facility available to finance operations under the contract for a minimum of one year in an amount not less than one million dollars (\$1,000,000). If the Apparent Successful Offeror does not deliver the commitment within such time, or within such extended time that DRMS in its sole discretion specifies, or if DRMS in its sole discretion determines that the commitment is subject to an unreasonable condition, the SCO will so notify all bidders, the original Notice of Intent to Award shall be deemed withdrawn, and the SCO shall serve a replacement Notice of

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Intent to Award to the bidder offering the next highest Bid Price, which bidder shall thereupon become the Apparent Successful Offeror.

(B) Key Persons.

The "Key Persons" provisions of Contractor's technical proposal are incorporated into, and made part of, the resultant contract. Substitutions of Key Persons will be permitted only with the approval of the Sales Contracting Officer ("SCO"), and such substitutions will be approved only if the replacement individual is as well or better qualified for a particular position as the original designee.

(C) Contract Award.

Prior to award of the contract, the SCO will determine whether the potential Contractor is a responsive, responsible prospective Contractor. If the SCO determines that a particular potential Contractor is not a responsive, responsible bidder, the responsibility of the bidder offering the bid with the next highest Bid Price shall be evaluated by the SCO to determine whether such bidder is a responsible prospective Contractor, and the SCO may award the contract to such next highest bidder if such award is otherwise determined to be in the Government's best interest, price and other factors considered.

(D) Failure of Apparent Successful Offeror to Pay Bid Price

If the Apparent Successful Offeror does not tender payment of the Bid Price as provided in Section 1(A) of Article 5, the SCO will so notify all bidders, the original Notice of Intent to Award shall be deemed withdrawn, and the SCO shall serve a replacement Notice of Intent to Award to the bidder offering the next highest Bid Price, which bidder thereupon shall become the Apparent Successful Offeror.

Section 4. Post-Award Conference.

The Government shall conduct a post-award conference within approximately two weeks of award to ensure that Contractor understands the terms and conditions of the contract. The location and date of the conference will be determined by the Government and the costs incurred by personnel affiliated with Contractor and/or Purchaser to attend shall be Contractor Indirect Costs, paid by Contractor without reimbursement by DRMS or Purchaser.

Section 5. Purchaser Information.

Within thirty (30) Days of the date of award, Contractor shall provide the following to DRMS (collectively, the "Purchaser Information"), and Purchaser shall provide to DRMS updated Purchaser Information within ten (10) Days of any change thereto:

- (A) Notice to DRMS of Purchaser's complete legal name, type of business organization (corporation or limited liability company), place of formation, (e.g.,

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Delaware), Federal Employer Identification Number, and principal place of business.

(B) Copies to DRMS of all documents evidencing: **(i)** Purchaser's legal formation and internal governance; **(ii)** if Purchaser is a corporation, Purchaser's election of Subchapter S status for federal income tax purposes; and **(iii)** appointment of Purchaser's Registered Agent.

(C) Notice to DRMS of Purchaser's Operating Account and Purchase Account, including the name, address and telephone contact information of the bank(s) of deposit, account numbers, and identification of the signatories on the accounts.

(D) Copies of all documents evidencing the opening of the Operating and Purchase Accounts, including without limitation copies of the signature card(s), resolutions and instructions to the bank.

(E) Notice to DRMS of the designation of Key Persons, if any, in addition to those identified in Contractor's technical proposal. Two (2) Key Persons, including Purchaser's Chief Executive Officer, are required pursuant to the provisions of Article 13 to authorize certain payments and transfers from the Operating Account.

Section 6. Formation of Purchaser; Covenant of Contractor.

(A) Formation of Purchaser.

Upon award of the contract to Contractor, Contractor shall cause the formation of a single purpose Subchapter S corporation or limited liability company (the "Purchaser"), over which Contractor shall retain control and in which Contractor shall retain at least a majority (51%) ownership interest throughout the Performance Period and until completion of the Wind-up, to perform the contract as provided herein.

(B) Covenant of Contractor.

Contractor hereby covenants and agrees that, from and after the date of award and until completion of the Wind-Up, Purchaser will remain a single purpose Subchapter S corporation or limited liability company, the sole purpose of which is to perform this contract, and which will not form or acquire any subsidiary business entity without written approval therefore by DRMS, which approval may be granted or withheld by DRMS in the exercise of the sole discretion.

Section 7. Transfer and Hypothecation.

(A) General Prohibition.

Except as specifically provided herein or specifically approved by DRMS in writing, neither Purchaser nor Contractor may directly or indirectly sell, transfer, assign, pledge, offer as collateral or otherwise hypothecate all or any part of its rights or obligations under the contract, or, with respect to Contractor, its

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ownership interest in Purchaser, provided, however, that **(i)** Contractor may convey or hypothecate a portion of its ownership interest in Purchaser if, after such conveyance, or after transfer in accordance with such hypothecation, Contractor retains control over and a majority (51%) ownership interest in Purchaser; and **(ii)** hypothecation of Contractor's Distribution Payments for the sole purpose of obtaining financing necessary to perform the contract shall not be deemed violative of the provisions of this Article, and **(iii)** such sale, transfer, assignment or hypothecation is not to any individual or firm that is suspended, debarred or otherwise prohibited from participation in government contracts. For purposes of the general prohibition set forth in this Section 7(A), the sale, transfer or hypothecation by Contractor of any voting stock of any corporation that directly or indirectly owns any interest in Purchaser or of any partnership interest in any general or limited partnership that directly or indirectly owns any interest in Purchaser shall constitute an assignment or transfer of an interest in Purchaser within the meaning of this Section 7(A).

(B) Attempted Transfer.

Any attempted transfer in violation of the provisions of this Article shall be null and void, ab initio, and shall constitute a Material Breach of this contract.

(C) Consolidation with CV.

The Contractor shall not consolidate its contract or operations with the CV-2 transaction without the written consent of DRMS. Any Contractor that proposes any such consolidation shall submit a written proposal to the SCO that presents the business case that the Contractor advances in support of the proposed consolidation. The business case must present an analysis of and projections, for each year or portion thereof through the then remaining balance of the term of the Performance Period, of Gross Revenues, Direct Costs, Net Proceeds, and Distributions to DRMS. The business case shall expressly set forth reasonable assumptions underlying such projections and shall present the basis for each assumption. In addition to any other factors that the Contractor identifies as material to the business analysis of the proposed consolidation, the Contractor's business case shall analyze any prospective cost savings and economies of scale that the Contractor expects from the consolidation. The SCO shall project the effects that DRMS expects from such consolidation upon DRMS costs, including without limitation its headquarters and field costs for SV and CV administration, monitoring, and reporting. The SCO shall assess the proposed consolidation with respect to the goal of maximizing Distributions to DRMS net of such costs, provided, however, that a Contractor proposing any such consolidation should not expect DRMS to contribute directly or indirectly to the cost thereof.

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Section 8. Contract of Sale.

(A) Relationship of Parties.

This contract is an agreement for the proceeds-sharing sale of the Property by DRMS as seller to Purchaser as buyer. Contractor and DRMS expressly disavow the creation of any other relationship, including without limitation principal-agent, master-servant, employer-employee, general or limited partnership, or joint venture, between DRMS and either Contractor or Purchaser.

(B) Parties to Contract.

The parties to this contract are DRMS, Contractor and, pursuant to the provisions of Section 10 of this Article 1, Purchaser. The exclusive representative of DRMS for all purposes under this contract is the SCO, and all notices, demands, requests, consents, approvals, declarations, reports and other communications to DRMS from Contractor or Purchaser shall be deemed ineffective unless addressed to the SCO and delivered in compliance with the provisions of Article 22, Section 2. Kormendi\Gardner Partners (“KGP”) is the DRMS Financial Advisor. KGP is neither a party to the contract nor an agent of DRMS for any purpose. Communications from Contractor or Purchaser to KGP shall not be deemed received by DRMS unless provided to DRMS in compliance with the provisions of Article 22, Section 2.

Section 9. Authority of Sales Contracting Officer.

The SCO has the authority on behalf of DRMS **(i)** with respect to matters committed by the provisions of this contract to the exercise of DRMS’s sole discretion, to exercise such discretion, **(ii)** with respect to all matters hereunder, to represent DRMS and to commit DRMS to take such actions as are permitted or required hereunder, and **(iii)** to extend, waive or amend timing requirements, deadlines or administrative requirements as may reasonably be required under the circumstances.

Section 10. Execution by Purchaser.

Within thirty (30) Days of the date of award, Contractor shall cause Purchaser’s Chief Executive Officer to execute on behalf of Purchaser and deliver to DRMS the Confirmation of Purchaser as Co-Signatory and Co-Obligor, the form of which is attached as Attachment VI.1.10. Notwithstanding the failure to deliver or delay in delivering such properly executed document to DRMS, Purchaser shall be deemed to be a co-signatory and co-obligor with Contractor with respect to this contract effective from the date of award and Purchaser and Contractor shall be jointly and severally liable for the performance of their respective obligations under this contract.

Section 11. Replacement Contractor.

(A) All bids must remain open and awardable for no less than one hundred twenty days after bid opening.

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(B) In the event of a Termination (as defined in Section 3 of Article 19) of the original Contractor within sixty (60) Days of the date of award, the SCO may award the contract to the next highest bidder that is determined by the SCO to be responsible if such award is otherwise determined to be in the Government’s best interest, price and other factors considered.

ARTICLE TWO. PERFORMANCE PERIOD; EARLY CANCELLATION OPTION; DRMS OPTION TO EXTEND

Section 1. Performance Period.

Subject to the early cancellation option provisions of Section 2 of this Article 2, and the DRMS extension option provisions of Section 4 of this Article 2, the Government shall provide the Property for an eighty-four (84) month period (the “Performance Period”) from the date of submission to Purchaser of the initial Pickup Notice.

Section 2. Early Cancellation Option.

(A) Beginning with the fourth (4th) Quarterly Report and in each Quarterly Report thereafter, Purchaser shall calculate and report the “SV Performance Ratio” for “Performance Ratio Property” (as such terms are defined below) with respect to the immediately preceding four-calendar quarter period and for each of the two immediately preceding calendar quarter periods.

(B) The “SV Performance Ratio” equals **(i)** the amount of Gross Proceeds obtained by Purchaser during a particular such period from the sale of “Performance Ratio Property”, divided by **(ii)** the amount of the DRMS Benchmark Performance Ratio Proceeds for such period. The “DRMS Benchmark Performance Ratio Proceeds” equals the sum of the products, determined with respect to and weighted by the particular weights of Performance Ratio Property identified by the particular combinations of SCL Code and DEMIL Code sold by the Purchaser during such period, of **(x)** the weight of such Property sold during such period, multiplied by **(y)** the “Indexed Price” (defined below) of such type of Performance Ratio Property. “Performance Ratio Property” means Property with the combinations of SCL Code and DEMIL Code identified in the attached Schedule VI.2.2(B).

(C) If the SV Performance Ratios for such four-calendar quarter period and for both such calendar quarter periods are less than unity (1.0), either DRMS or Contractor may in its sole discretion cause Termination by notice served within ninety (90) Days of the delivery to DRMS of such Quarterly Report and effective five (5) Days after the date of service of the notice.

(D) The provisions governing this cancellation option may be modified as DRMS and the Contractor may from time agree in response to changes in the computation or reporting of Price Indices, market conditions or other factors.

affiliation exists, consideration is given to all appropriate factors including common ownership, common management, and contractual relationships; *provided*, that restraints imposed by a franchise agreement are not considered in determining whether the franchiser controls or has the power to control the franchisee, if the franchisee has the right to profit from its effort, commensurate with ownership, and bears the risk of loss or failure. Any business entity may be found to be an affiliate, whether or not it is organized for profit or located inside the United States. (Refer to Article 23 for the definition of "Affiliate" as such term relates to the provisions of this Article 2A.)

(B) "Small Business Concern"

"Small business concern" means a concern, including its affiliates, that is independently owned and operated. For the purposes of this contract DRMS has classified small business concerns into two levels:

- (1) Concerns with 100 or fewer employees.
- (2) Concerns with 25 or fewer employees.

(C) "Failure to make a good faith effort to comply with the small business sales plan"

As used in this clause, "failure to make a good faith effort to comply with the small business sales plan" means a willful or intentional failure to perform in accordance with the requirements of the small business sales plan approved and included in this contract, or willful or intentional action to frustrate the plan.

Section 3. Small Business Sales Plan.

Within fifteen (15) days after bid opening, each apparent successful bidder shall submit a small business sales plan to the SCO for approval. The plan shall be included in and made a part of any resultant contract with the bidder. Failure to obtain approval of a small business sales plan shall make the bidder ineligible for the award of the contract until such approval is obtained.

Section 4. Content of Plan.

Bidder's small business sales plan shall include, at a minimum, the following:

- (A) A description of the efforts the offeror will make to assure the small business sales goals are met (Section 5 below) and that small businesses have an equitable opportunity to compete for contracts.
- (B) A description of how size information on the firms will be collected. (Note, self-certification is acceptable. Any firm that does not provide a certification (if self-certification is the method utilized) would be assumed to be a large business).
- (C) The name or title of the position of the individual employed by the bidder who will administer the small business sales plan.
- (D) A description of the types of records that will be maintained concerning procedures that have been adopted to comply with the requirements and goals in

the plan, including establishing source lists; and a description of the bidder's efforts to locate small business, i.e., source lists, organizations contacted, internal guidance and encouragement provided to individuals responsible for the arrangement of sales.

- (E) DRMS has established small business sales goals of 40 percent of the total gross proceeds to concerns with 100 or fewer employees and 20 percent of total gross proceeds to firms with fewer than 25 employees.

Section 5. Incentive Provisions.

Commencing with the first 12-month anniversary of the date of award, and each anniversary thereafter, an adjustment based on gross sales to small business may be made to the amount of Distributions paid to the Contractor. These adjustments will be calculated if the Contractor achieves the following:

(A) Incentive 1.

If the Contractor exceeds the small business sales goal by achieving gross sales of 60 percent or more to concerns with 100 or fewer employees, the Contractor will be entitled to an incentive payment in the amount of five percent (5%) of the total Distributions to the Contractor for the previous 12 months.

(B) Incentive 2.

If the Contractor meets the criterion for Incentive I above, and also sells 50 percent or more of all small business sales to firms with 25 or fewer employees, the Contractor will be entitled to an additional incentive payment equal to the incentive payment for Incentive 1.

(C) Funding of Incentive Payments.

Incentive payments shall be funded and accounted for as Seller Indirect Costs.

Section 6. Quarterly Reports.

The Purchaser shall submit quarterly a report that contains, at a minimum, the following information:

- Company Name
- Address
- Contract Identification Number
- Date of Report
- Reporting Period
- Proceeds:
 - Total gross proceeds during the reporting period
 - Total gross proceeds from sales to businesses with 100 or fewer employees and businesses with 25 or fewer employees during the reporting period
 - Percent of total gross proceeds sold to businesses with 100 or fewer employees and businesses with 25 or fewer employees during the reporting period.

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- Volume:
 - Total lbs. sold during the reporting period
 - Total lbs. sold to businesses with 100 or fewer employees and businesses with 25 or fewer employees during the reporting period
 - Percent of total lbs. sold to businesses with 100 or fewer employee and businesses with 25 or fewer employees during the reporting period.
- Contract Dispersion-
 - Total number of re-sale contracts during the reporting period.
 - Total number of re-sale contracts with businesses with 100 or fewer employees and businesses with 25 or fewer employees during the reporting period.
- Annual incentive payments made as the result of Section (5) above.

Section 7. Failure to Comply.

The failure to comply in good faith with the approved plan required by this clause shall be a Material Breach and DRMS shall have all rights and remedies afforded by the provisions of Article 19 below.

Section 8. Review of Records.

The Government has the right to review the Contractor's Records to ensure compliance with its small business sales plan.

**ARTICLE THREE. REFERRAL AND REMOVAL OR ABANDONMENT OF
PROPERTY; SPECIAL SITUATION PROPERTY; TITLE TO PROPERTY; RISK OF
LOSS**

Section 1. Pickup Notices and Invoices

(A) Exclusive Sale.

All DRMS material that conforms to the definition of the "Property" shall be sold by DRMS only to Purchaser as provided herein.

(B) Pickup Notices.

(1) Purchaser shall receive written notices (each, a "Pickup Notice") from generators or DRMS with respect to all Property referred for sale to Purchaser at locations other than at DRMO Scrap Yards that are not Restricted Access Facilities. Such Pickup Notices shall pertain to all Property referred for sale to Purchaser at Restricted Access Facilities, via Rolloffs and in-place (including at Puget Sound Naval Shipyard), and to all Demilitarization Residue and DCS Property.

(2) Special loading, notification, Container, environmental, demurrage, work safety, and other requirements apply to Property referred for sale to

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Purchaser at Puget Sound Naval Shipyard ("PSNS") as set forth at Schedule VI.3.1.B(2). The provisions of Schedule VI.3.1.B(2) may be changed by DRMS from time to time upon reasonable notice as may reasonably be required by the installation. DRMS shall from time to time designate a person as a Government Representative whom Purchaser shall treat as its point-of-contact for resolving administrative and logistical matters at PSNS that this sale contract does not reserve exclusively for decision by the SCO. All costs, if any, of providing, picking up and transporting Containers at PSNS as required in such Schedule shall be Direct Costs, provided, however, that, for the convenience of the Government, DRMS and Purchaser may agree that certain costs shall be treated as Seller Indirect Costs, Any Property referred for sale to Purchaser at PSNS that Purchaser in its sole discretion determines is unsaleable or cannot be sold without reducing Net Proceeds shall be removed by Purchaser on a timely basis and the actual and reasonable costs of loading and transporting such Property shall be deemed Seller Indirect Costs, provided, however, that Purchaser shall notify the SCO thereof in advance before removing such Property.

(3) Twice per calendar month, Purchaser shall provide to the SCO, or the SCO's designee, copies of all Pickup Notices received. Such copies may be electronic, xerographic or facsimile.

(C) Outstanding Pickup Notice List.

At least once per calendar quarter, and no more than monthly, DRMS will issue an "Outstanding Pickup Notice List" to Purchaser that identifies Pickup Notices for which DRMS has not received documentation of the Delivery of Property to Purchaser in a form sufficient to create an Invoice to Purchaser therefor ("Delivery Documentation"). Within thirty (30) Days thereof, Purchaser shall provide to DRMS in writing either the corresponding Delivery Documentation, certification of disposal, or justification for Delivery not having yet occurred.

(D) Invoices.

Once per calendar quarter, DRMS shall issue an Invoice to Purchaser based upon the Delivery Documentation received by DRMS during the preceding calendar quarter. The Invoice shall itemize all Deliveries effected during such quarter, and for each shall state location (DRMO name or other suitable identifier), SCL Code, Delivery Weight, and Quarterly Purchase Price of the subject Property. Preparation of the initial Delivery Documentation at particular locations, and of the initial Invoice to Purchaser under this contract, shall be governed by the provisions of Section 7 of this Article 3.

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Section 2. Delivery Points; DRMS Customer Liaison; Phase-In Period; DRMS Infrastructure Reduction.

(A) Delivery Points.

(1) Property that is referred for sale to Purchaser shall be located within the United States, including Alaska but excluding Hawaii, North Carolina, South Carolina and Tennessee, at (i) a DRMO Scrap Yard, (ii) a scrap operation other than a DRMO that is operated by or on behalf of DRMS ("DRMS Warehouse"), (iii) other governmental locations, including without limitation military facilities and such other locations as may be designated in its sole discretion by DRMS (collectively, "Special Situation Locations"), (iv) a scrap operation operated by or on behalf of Purchaser, or (v) PSNS. (DRMOs, DLA Depots, DRMS Warehouses, Special Situation Locations, Purchaser operations, and PSNS are hereinafter collectively termed "Delivery Points.") DRMS may elect in its sole discretion and at its sole expense to pack, load and transport Property to any Delivery Point either before or in connection with referring such Property for sale to Purchaser. DRMS and Purchaser may jointly decide to have material shipped by or on behalf of DRMS directly to Purchaser's re-sale buyers and to allocate the costs thereof between DRMS and Purchaser as the parties may agree.

(2) DRMS may elect in the exercise of its sole discretion to delete PSNS as a Delivery Point, and the Property there may be eliminated from this sale contract, if Purchaser or its re-sale buyers create repeated instances of work stoppages there that, after notice thereof, Purchaser fails to cure on a timely basis. The provisions of Article 19 shall govern such notice and cure.

(B) Delivery Point Directory; DRMS Customer Liaison.

(1) Within thirty (30) days of award of this contract, DRMS shall provide to Contractor, in writing and in machine readable MS Office word processing (*.doc) or spreadsheet (*.xls) file format, (i) the listing (the "Delivery Point Directory") as of the date of award of all operating DRMOs and DRMS Scrap Operations in the pertinent geographic area with DRMO Name, DRMO RIC and RIC Suffix, the address and telephone for each such facility, an indication of whether such facility is initially designated by DRMS as a Restricted Access Facility, and with respect to each listed facility, the name of the DRMS employee or other government representative designated by DRMS to serve as the principal point of contact for Purchaser with respect to such facility (each, the "DRMS Customer Liaison" for such facility), the address and telephone of the DRMS Customer Liaison if either differs from that for the facility itself, the electronic mail address for the DRMS Customer Liaison if

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available, a supervisory contact for the DRMS Customer Liaison, and the date, if applicable, and if publicly available, that such facility is scheduled to be closed, and (ii) the listing, for each operating DRMO and other DRMS Scrap Operation, of all Scrap or DCS Property term sale contracts that are active as of approximately sixty (60) Days prior to the award date, which listing shall include for each DRMO and other DRMS Scrap Operation the following information if available:

- SCL Code or other identifier of the material that is the subject of the term contract;
- Contract number;
- Contract performance period;
- Company name;
- Contact name;
- Company telephone number;
- Company fax number;
- Company address;
- Email contact; and
- Approximate dollar volume in preceding twelve months or life of contract, whichever period is shorter.

(2) Throughout the Performance Period, DRMS shall provide notice to Purchaser reasonably promptly of changes in the Delivery Point Directory, including without limitation notice of any scheduled or actual establishment or closure of any DRMO or DRMS Scrap Operation in the pertinent geographic area, such notice to be provided within thirty (30) Days of the date that knowledge of such scheduled or actual establishment or closure becomes available to the public.

(3) The DRMS Customer Liaison for the DRMO or DRMS Scrap Operation that is identified on a Pickup Notice as the accountable DRMS facility for particular Property shall arrange or permit reasonable access for Purchaser to such Property as provided herein.

(C) Phase-In Period.

Purchaser shall phase in its performance of the contract as provided in this Section.

(1) Purchaser and DRMS shall make reasonable efforts to agree on a schedule for Purchaser to begin accepting Delivery of Property such that, no later than three (3) months after the post-award conference, Purchaser shall be accepting Delivery of Property at each of the fourteen (14) "Initial Delivery Points" identified in Table VI.3.2.C below. Also within three (3) months of the post-award conference, Purchaser shall serve notice to DRMS of Purchaser's proposed schedule for accepting referrals of Property at the balance of the locations in the Delivery Point Directory.

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**Table VI.3.2.C
Initial Delivery Points**

No.	Name	City	State
1	Lewis	Tacoma	WA
2	Oklahoma City	Oklahoma City	OK
3	Anniston	Anniston	AL
4	Texarkana	Hooks	TX
5	Hood	Killeen	TX
6	Lakehurst	Lakehurst	NJ
7	Mechanicsburg	Mechanicsburg	PA
8	St. Juliens	Portsmouth	VA
9	Tucson	Tucson	AZ
10	Crane	Crane	IN
11	San Antonio	San Antonio	TX
12	Benning	Columbus	GA
13	Jacksonville	Jacksonville	FL
14	Puget Sound Naval Shipyard	Bremerton	WA

(2) Within fifteen (15) Days after receipt of such notice, DRMS shall serve notice to Purchaser of the schedule (the "Phase-In Schedule") for phasing in referrals at all Delivery Points other than the Initial Delivery Points. Unless DRMS in the exercise of its sole discretion elects to extend the Purchaser's proposed timetable, the Phase-In Schedule shall provide for referrals to begin at all such Delivery Points no later than six (6) months after the post-award conference.

(3) Purchaser may request that DRMS begin referrals at certain Delivery Points earlier than three (3) months after the post-award conference by serving its request therefor, and at any time Purchaser may request acceleration of referrals at any Delivery Point. DRMS shall respond to such requests in the exercise of its sole discretion, and DRMS and Purchaser shall cooperate to effect orderly cancellation of existing term sale contracts and an effective transition that does not unnecessarily impact service to generators.

(4) DRMS shall refer Property for sale to Purchaser only as provided on the Phase-In Schedule until the date that is six (6) months after the date that the initial Pickup Notice is submitted to Purchaser (such six month

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period being the "Phase-In Period") except as the Phase-In Schedule may be modified by agreement reached by the parties in the exercise of the sole discretion of each. During the Phase-In Period DRMS reserves the right to sell to buyers, other than Purchaser, such Property that is located at Delivery Points that, pursuant to the Phase-In Schedule, are at the time not yet scheduled for referrals of Property for sale to Purchaser.

(5) Subject to staffing and facilities constraints, DRMS intends to accumulate Property at each particular Delivery Point in advance of the scheduled first referral of Property there to provide the Purchaser with some beginning inventory with which to begin its operations. Nevertheless, DRMS cannot and does not represent that there will be any particular level of inventory, or necessarily any at all, at any particular site when referrals of Property begin there.

(6) During the Phase-In Period, DRMS shall not refer Property that is located at Special Situation Locations for sale to Purchaser, provided, however, that Purchaser may request to receive Property at any such location by so notifying DRMS, and DRMS shall exercise reasonable efforts to accommodate any such request.

(7) Upon the conclusion of the Phase-In Period and thereafter during the balance of the Performance Period, DRMS shall refer all Property at all Delivery Points for sale to Purchaser under the contract.

(8) All costs of providing, picking up and transporting Containers that Purchaser elects to utilize in the exercise of its sole discretion shall be deemed Direct Costs, provided, however, that the provisions of Section 1(B)(2) of this Article 3 shall apply to PSNS. In addition, DRMS in the exercise of its sole discretion may direct Purchaser upon reasonable notice to utilize a particular Container at any other Delivery Point. If, as a result, the number of Containers utilized by Purchaser other than at PSNS exceeds

three hundred (300), including Containers provided by generators or the Government, the actual and reasonable costs of providing, picking up and transporting any such additional Container shall be deemed Seller Indirect Costs.

(D) DRMS Infrastructure.

Contractor acknowledges that DRMS intends to reduce its infrastructure, including without limitation by closure of some or all DRMOs and DRMO Scrap Yards and/or reduction of operating hours at particular DRMOs and DRMO Scrap Yards, or by establishment of DRMS Scrap Operation, or by other methods or combinations of methods. Contractor further acknowledges that this contract shall remain in force notwithstanding such infrastructure reduction measures that DRMS in its sole discretion may effect.

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(E) Maximum Number of DRMOs, DRMO Scrap Yards and DRMS Scrap Operations.

DRMS does not expect to operate in excess of sixty-nine (69) DRMOs, DRMO Scrap Yards, and DRMS Scrap Operations, or in excess of forty (40) RIPLs, at any time during the Performance Period. At any time that such number is exceeded, all Property referred for sale to Purchaser at such facilities that are the then most recently established such facilities and comprise the excess thereof shall be deemed to be referred for sale at Special Situation Locations and not made available for On-Site Processing for the purpose of determining Seller Indirect Costs pursuant to the provisions of Section 4(F) of this Article 3.

Section 3. Property Storage; Delivery of Property to Purchaser and Passage of Title.

(A) Property Storage.

(1) Each DRMO, DRMS Scrap Yard and DRMS Scrap Operation other than Restricted Access Facilities shall provide to Purchaser (i) a portion of its administrative space to the extent that DRMS determines in the exercise of its sole discretion that such space can be made available, and (ii) a contiguous portion of its outdoor storage space ("Purchaser's Dedicated Storage"). DRMS shall specify on the Phase-In Schedule the initial space allocations for the facilities designated thereon, and DRMS shall notify Purchaser of the initial space allocations at all other DRMOs, DRMS Scrap Yards and DRMS Operations within ninety (90) Days of submission of the initial Pickup Notice to Purchaser. Such initial space allocations shall be specified by DRMS in the exercise of its sole discretion, provided, however, that DRMS expects that, except in unusual circumstances, the entirety of each DRMO Scrap Yard will be designated as Purchaser's Designated Storage. After referrals of Property for sale to Purchaser have begun at any particular facility, including facilities established by DRMS after the date of award, DRMS and Purchaser shall adjust space allocations from time to time as is reasonably required in the circumstances to accommodate relative inflows to the facility of Property and other DRMS items. Purchaser may use Purchaser's Dedicated Storage to store, inspect, lot, tag, sort, pack and load Property as provided herein, or for any other purpose that is desired by Purchaser in the exercise of its sole discretion and that is not inconsistent with the express provisions of this contract. Subject to Host Installation requirements and DRMS approval, Purchaser may use Purchaser's Dedicated Storage for shredding, baling or other processing of the Property.

(2) At DRMOs, DRMO Scrap Yards and DRMS Operations other than Restricted Access Facilities, DRMS shall provide reasonably necessary utility services to Purchaser to the extent that DRMS determines in the

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exercise of its sole discretion that such services, including water, electricity, heat and telephones, are available at a particular facility. Subject to approval by DRMS, which approval shall not be unreasonably withheld, and subject to Host Installation restrictions, Purchaser may arrange for additional services at any particular such facility in the exercise of its sole discretion and at Purchaser's sole expense.

(3) Subject to approval by DRMS, which approval shall not be unreasonably withheld, and subject to Host Installation restrictions, Purchaser may install fixtures or make other improvements to the premises at any particular DRMO, DRMO Scrap Yard or DRMS Operation other than Restricted Access Facilities, provided, however that any such improvements permanently affixed to such premises shall become the property of the Government at the conclusion of the Wind-Up if so designated by DRMS in the exercise of its sole discretion at any time during the final ninety (90) Days of the Performance Period.

(4) Except as otherwise provided herein, Purchaser shall not be provided Purchaser's Dedicated Storage or administrative space at Special Situation Locations or Restricted Access Facilities except as a particular facility's restrictions permit.

(B) Receipt of Property by Purchaser

(1) DRMO Scrap Yards other than Restricted Access Facilities.

The Purchaser is responsible for assisting generators in unloading material at Government scrap operations. Receipt of Property at DRMO Scrap Yards other than Restricted Access Facilities shall be as follows. The personnel of DRMS and Purchaser shall cooperate as is reasonably required to implement these provisions.

a. If the Contracting Officer's Representative ("COR") is available, the COR shall receive the Property from the generator on behalf of DRMS; for Property properly identified by one of the "High Value SCL Codes," set forth in the attached Schedule VI.3.3.B(1), confirm or correct its SCL Code; for all SCL Codes, confirm or correct its DEMIL Code and Delivery Weight, create or correct the turn-in documentation; and approve the load for unloading by the Purchaser.

b. If the COR is unavailable, the generator shall be deemed to be referring the Property on behalf of DRMS. Purchaser shall, for Property properly identified by one of the High Value SCL Codes, confirm or correct its SCL Code; for all SCL Codes, confirm or correct the Property's Delivery Weight, and create or correct the turn-in documentation as necessary, provided, however, that the generator concurs with the final entries thereon and proceed with

the unloading. Absent such concurrence, Purchaser shall accept the Property on behalf of DRMS subject to the provisions of Section (3)(C) below.

c. The turn-in documentation shall serve as the Delivery Documentation for such Property.

(2) Containers.

Receipt of Property in Containers shall be as follows:

a. Purchaser shall pick up the full Container, and replace it with an empty Container, within five (5) Business Days of its receipt of a Pickup Notice, unless otherwise agreed to by the parties.

b. Purchaser shall have its transport vehicle and Container weighed immediately before and after pickup at a Scrap Yard if reasonably available or, if not, at a commercial scale. The difference in such weights shall be deemed to equal the Delivery Weight of the subject Property for pricing the Property on an Invoice.

c. Purchaser shall create or correct the subject turn-in documentation as necessary, provided, however, that the generator concurs with the final entries thereon. Absent such concurrence, Purchaser shall accept the Property on behalf of DRMS subject to the provisions of Section (3)(C) below. Purchaser shall note the Delivery Weight and identify the corresponding Pickup Notice on the turn-in documentation, and, if the Delivery Weight was determined commercially, shall attach a copy of the documentation thereof. The turn-in documentation with its attachments shall collectively constitute the Delivery Documentation for such Property.

(3) Referral In-Place and at Restricted Access Facilities.

Receipt of Property in-place and at Restricted Access Facilities at the generator's premises shall be as follows:

a. Purchaser shall have custody of and control over the Property upon receipt of a Pickup Notice from DRMS or the generator.

b. The Property shall be weighed and the turn-in documentation completed upon removal of the Property.

c. Purchaser shall have its transport vehicle weighed immediately before and after pickup at a DRMO Scrap Yard if reasonably available or, if not, at a commercial scale. The difference in such weights shall be deemed to equal the Delivery

Weight of the subject Property for pricing the Property on an Invoice.

d. Purchaser shall create or correct the subject turn-in documentation as necessary, provided, however, that the generator concurs with the final entries thereon. Absent such concurrence, Purchaser shall accept the Property on behalf of DRMS subject to the provisions of Section (3)(C) below. Purchaser shall note the Delivery Weight and identify the corresponding Pickup Notice on the turn-in documentation, and, if the Delivery Weight was determined commercially, shall attach a copy of the documentation thereof. The turn-in documentation with its attachments shall collectively constitute the Delivery Documentation for such Property.

(4) Demilitarization Residue.

Receipt at a DEMIL Center of residue that results from demilitarization ("DEMIL Residue") shall be as follows:

a. Purchaser shall pick up the full Container, and replace it with an empty Container, within five (5) Business Days of its receipt of a Pickup Notice.

b. Purchaser shall have its transport vehicle and Container weighed immediately before and after pickup at the DEMIL Center scale. If a DEMIL Center scale is not reasonably available or, if not, at a commercial scale. The difference in such weights shall be deemed to equal the Delivery Weight of the subject Property for pricing the Property on an Invoice.

c. The Pick-up Notice and documentation of the Delivery Weight shall collectively constitute the Delivery Documentation for such Property.

(5) Puget Sound Naval Shipyard. Receipt of Property at PSNS shall be as set forth in Schedule VI.3.1.B(2). As provided in Schedule VI.3.1.B(2) and in Section 1(B)(2) above of this Article 3, employees of the shipyard or of the shipyard's demolition

contractors shall load the Scrap material into Containers provided by Purchaser and Purchaser is required to remove such Containers as they fill. The costs of the Containers and their removal shall be Direct Costs.

(C) Discrepancies; Correction of DEMIL Codes; Duty to Cooperate; Duties of Care and Loyalty; Administrative Efficiencies

(1) Discrepancies. Any dispute concerning the proper description of Property on Delivery Documentation shall be governed by the provisions of Section 2 of Article 6 concerning "Discrepancies."

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(2) Correction of DEMIL Codes. In no event shall Purchaser be responsible for determining or correcting the DEMIL Code assigned to particular Property. Property that is received by Purchaser directly from a generator shall be deemed to be DEMIL "B" unless the generator specifies another DEMIL Code.

(3) Duty to Cooperate. Purchaser shall cooperate reasonably with generator personnel to effect the receipt of Property.

(4) Duties of Care and Loyalty. Purchaser may negotiate with generator personnel to resolve disagreements concerning the proper SCL Code applicable to particular Property received directly by Purchaser, provided, however, that in resolving such disagreements Purchaser is subject to the provisions of Section 2 of Article 7 that concern Purchaser's duty of care and duty of loyalty toward DRMS.

(5) The SCO may propose by notice such simplified administrative procedures for determining SCL Code and Delivery Weight at particular installations, with respect to certain types of Property, or in any other respect that the SCO determines would enhance Net Proceeds, provided, however, that such procedures would not unreasonably reduce Purchaser's accountability for Property, and such procedures shall take effect upon notice of concurrence therewith by Purchaser.

(D) Title

(1) DRMS shall transfer title to particular Property as provided in this Section 3(D).

a. Except for DCS Property and Property that is referred for sale in-place at a generator's premises or at a Restricted Access Facility, title shall pass to Purchaser upon receipt of the Property by Purchaser.

b. Title to Property referred for sale in-place at a generator's premises or at a Restricted Access Facility shall pass to Purchaser upon the removal by or on behalf of Purchaser or a re-sale buyer from its Delivery Point.

c. Title to DCS Property shall pass to Purchaser upon the completion and documentation of the required demilitarization and removal of the residue by or on behalf of Purchaser or a re-sale buyer from its Delivery Point, and removal of DCS Property is not permitted before the completion and documentation of the required demilitarization absent advance written permission from DRMS.

(2) Any subsequent re-sale transactions are between Purchaser and the re-sale buyers, not between the Government and the re-sale buyers. Any disputes or claims resulting from such transactions are between Purchaser and re-sale buyers, not the Government.

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Section 4. Access to Property; Removal; On-Site Processing; Costs of Removal; Refrigerants

(A) Purchaser's Access to Property.

(1) Purchaser, Purchaser's subcontractors and Contractor shall have access to Property at each DRMO Scrap Yard and DRMS Scrap Operation during all hours that such facility normally staffs sales, warehousing, receiving or other functions, to inspect, lot, tag, sort, process, pack, load or ship such Property, and, except as otherwise provided herein, for such other purposes as Purchaser deems appropriate in its sole discretion. Purchaser shall coordinate such access with the management of each particular Scrap Yard. Except as otherwise provided herein, and subject to applicable law and Host Installation regulations, Purchaser may store and use Purchaser's materials handling equipment, on an as is if available basis, at DRMO Scrap Yards other than Restricted Access Facilities.

(2) Due to Host Installation restrictions or for other reasons, a particular Scrap Yard may occasionally and temporarily be unable to provide storage as provided in Section 3 above of this Article 3 or access as provided in Subsection (1) above of this Section 4(A). Any such facility that is not reasonably able to provide such storage or access other than occasionally and temporarily shall be deemed a "Restricted Access Facility." Concurrently with award of this contract, DRMS shall provide to Contractor in writing a list of DRMO Scrap Yards that DRMS initially designates as Restricted Access Facilities. DRMS may add or delete entries on that list from time to time by written notice to Purchaser.

(3) Except as provided in Sections 4(C) and 4(E) below of this Article 3, Purchaser shall not be permitted access at any time to any Property at Special Situation Locations and Restricted Access Facilities, other than such access as is reasonably necessary for removal of Property when removal of such Property is requested by DRMS. Except as otherwise provided herein, Purchaser shall neither use nor store Purchaser's materials handling equipment at Special Situation Locations and Restricted Access Facilities. Subject to applicable law and Host Installation regulations, DRMS shall provide to Purchaser, at government expense

and at any such Delivery Point, the use of such materials handling equipment as is available for the materials handling tasks that are reasonably required of Purchaser at such Delivery Points.

(4) Purchaser shall comply with all applicable inspection and safety regulations at Host Installations, including, without limitation, regulations pertaining to materials handling equipment.

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(B) Re-Sale Buyers' Access to Property.

Except as provided in Sections (4)(C), 4(D) and 4(E) below of this Article 3, Purchaser's prospective re-sale buyers shall not be permitted access to Property at any Delivery Point at any time.

(C) Removal; Packing and Loading.

(1) **Removal.** Except as provided in Section 4(E) below, and except in special circumstances that reasonably delay removal, Purchaser shall cause removal of Property as follows:

a. With respect to Property that is located at a Scrap Yard, as is reasonably necessary from time to time to accommodate the inflow of Property to Purchaser's Dedicated Storage at any particular such facility, provided, however, that, except by special arrangement with a particular Restricted Access Facility, Property referred for sale at Restricted Access Facilities shall be removed no later than the earlier of (i) sixty (60) Days after submission to Purchaser of the corresponding Pickup Notice, or (ii) reasonably promptly upon request by DRMS.

b. With respect to Property that is located at a Special Situation Location, within thirty (30) Days of delivery of the corresponding Pickup Notice unless DRMS directs earlier removal pursuant to the provisions of Subsection (c) below of this Section 4(C)(1). The DRMS Customer Liaison shall timely notify Purchaser of whether Purchaser will be required to pack and/or load such Property. If Purchaser's initial attempt to remove the Property is unsuccessful because, notwithstanding such notice, the Property is inadequately packed by government personnel or loading by government personnel is unexpectedly unavailable, Purchaser shall return within thirty (30) Days with materials and equipment necessary to effect removal.

c. Occasionally and as circumstances reasonably require, DRMS may direct removal of Property within shorter time periods than those provided in Subsections (b) and (c) above of this Section 4(C)(1). All such Property shall be deemed to be referred for sale at a Restricted Access Facility for the purpose of applying the provisions of Section 4(F) (2) below of this Article 3.

(2) **Packing and Loading.**

a. Property at Scrap Yards. Purchaser shall both pack and load Property at Scrap Yards for removal by Purchaser's re-sale buyers, and removal of Property from Scrap Yards other than Restricted Access Facilities by Purchaser's re-sale buyers shall be permitted throughout the Performance Period. Costs incurred by

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Purchaser for packing and loading Property at DRMOs and DRMS Operations shall be Direct Costs.

b. Special Situation Locations; Restricted Access Facilities. Property referred for sale at Special Situation Locations and Restricted Access Facilities shall be packed and loaded suitably for transport by DRMS or other government personnel at government expense, provided, however, that Purchaser shall pack and/or load such Property as requested by DRMS upon reasonable notice, and the actual and minimum reasonable costs thereof shall be Seller Indirect Costs. Except as provided in Section 4(E) of this Article 3 below, Purchaser's re-sale buyers may not pick up Property at Special Situation Locations and Restricted Access Facilities.

(D) On-Site Processing.

Purchaser's prospective re-sale buyers shall be permitted access subject to Host Installation restrictions to each Scrap Yard other than Restricted Access Facilities to inspect the Property in connection with Purchaser's processing and marketing activities, including without limitation sorting, packing, processing, off-site auctions and negotiated sales. Such prospective re-sale buyers shall be accompanied within the Scrap Yard at all times by Purchaser or its designee, and Purchaser will be required to escort re-sale customers from installation gates to the Scrap Yard when it is required, and permitted, by the Host Installation. Re-sale buyer access at a particular Scrap Yard shall be permitted for at least two (2) Business Days each calendar week for at least eight (8) hours each, provided, however, that (i) Purchaser shall coordinate such access with the management of each particular Scrap Yard, (ii) Purchaser shall conduct such re-sale buyer access in a manner that is not unreasonably disruptive of the facility's operations, and (iii) such re-sale buyer access shall be permitted only during such times as Purchaser access is permitted pursuant to the provisions of Section (4)(A)(1) above of this Article 3. (Re-sale buyer access to Property as provided in this Section 4(D) is hereinafter termed "On-Site Processing.")

(E) DRMS Option to Permit On-Site Processing.

Throughout the Performance Period, DRMS in the exercise of its sole discretion may designate particular Property at a particular Special Situation Location or Restricted Access Facility as available for On-Site Processing by serving notice thereof upon or after delivery of the Pickup Notice and before removal of such Property by Purchaser. On-Site Processing of such Property at such location shall be permitted for sixty (60) Days following service of such notice, and Purchaser shall cause removal of such Property within such sixty (60)

sixty (60) Day period that is consistent with the provisions of Sections 4(A)(1) and 4(D) above of this Article 3.

(F) Costs of Removal.

(1) On-Site Processing. With respect to Property that is made available to Purchaser for On-Site Processing, the costs incurred by Purchaser to transport such Property from its Delivery Point are Direct Costs.

(2) Other Property. With respect to Property referred for sale at **(i)** Special Situation Locations that is not made available for On-Site Processing, and **(ii)** Restricted Access Facilities, the actual and minimum reasonable costs incurred by Purchaser to pack, load and surface transport such Property from its Delivery Point to Purchaser's nearest storage facility (including a DRMO Scrap Yard) are Seller Indirect Costs, provided, however, that transport costs for transport in excess of five hundred (500) miles from the Delivery Point, shall be deemed Direct Costs. Purchaser shall notify DRMS within fifteen (15) Days of the establishment or closure of each storage facility operated by or for Purchaser, and for each newly established facility such notice shall include address, telephone and on-site management contact information.

(G) Government Furnished Equipment

(1) Attachment VI.3.4.G identifies government-owned equipment that that may be available to the Contractor ("GFE"). DRMS does not represent or warrant that such GFE is completely or accurately identified on such Attachment or is in fact available at the locations specified or any of them, that such equipment is useable or could be made useable for any particular purpose with any particular amount of parts, repairs or maintenance, that such equipment has received an appropriate amount of repairs or maintenance or any amount of repairs or maintenance whatsoever, or that such equipment is safe to operate.

(2) Subject to applicable law and Host Installation instructions, including without limitation any required inspections, DRMS hereby grants a license to Purchaser to use, maintain, repair or modify such GFE as is identified in such Attachment to the extent and in the manner that Purchaser elects in the exercise of its sole discretion, and the costs thereof shall be Direct Costs, provided, however, that such GFE shall be used solely to perform Purchaser's obligations under this contract, and provided further that DRMS may at any time relocate such GFE to another location for government use as determined by DRMS in the exercise of its sole discretion. Should any GFE require replacement due to misuse and negligence by Purchaser, Purchaser shall be responsible for such replacement at no cost to the Government.

(3) At such time that Purchaser determines that a particular item of GFE is not economically repairable (defined as requiring repair costs in excess of 75 percent of the cost to replace such item), the Purchaser and a DRMS COR shall certify it to be in condemned condition and submit a report to the SCO. Before the conclusion of the Wind-Up, the remaining GFE shall be reported to the SCO according to FAR 45.6 or in such other format as the parties may agree.

(4) Within ninety (90) Days of award, Purchaser shall submit a report to DRMS that (i) identifies and provides a photograph of each particular item of GFE by location, and (ii) provides a good faith assessment of the condition of each such item of GFE. DRMS shall notify Purchaser of any objections to such report within ninety (90) Days of its receipt by DRMS. The parties shall cooperate in good faith to resolve such objections and, with respect to objections that are resolved, shall document the resolution in writing. Reasonably promptly when so requested, Purchaser shall acknowledge receipt of the GFE in writing by executing, and annotating to the extent that Purchaser deems appropriate, a DLA Form 1311 (or similar form) prepared by DRMS for property accountability.

(H) Base Closures.

(1) Contractor acknowledges that certain defense installations may be scheduled for closure (each, a "Base Closure") during the prospective Performance Period of this contract. Contractor further acknowledges that Base Closures often generate substantially increased volumes of surplus material that must be processed on accelerated schedules.

(2) DRMS and Purchaser shall cooperate and institute special procedures as reasonably necessary in connection with Base Closures to process and re-sell Property efficiently. Such cooperation shall include, without limitation, extended access for Purchaser and re-sale buyers, on-site calls of auctions and spot bidding, and other special procedures as reasonably required to remove all property by the established closure date.

(I) Damage to Government Property; Clean-Ups of Spills.

(1) Purchaser shall be responsible to DRMS for any physical damage that is caused to any government equipment or facility or Scrap Yard that arises out of the negligence of Purchaser, its vendors or its re-sale buyers. Purchaser shall be responsible for cleaning up spills of hazardous material on a government installation that are caused by Purchaser, its vendors or its re-sale buyers, including spills from hydraulic lines on GFE, without regard to degree of culpability, and, for any spill that occurs on a government installation that has provided to Purchaser its Spill Prevention Control and Countermeasures Plan and Spill Contingency Plan, such clean-up shall be in accordance with such plans. Purchaser shall notify the

SCO or COR reasonably promptly of any such spill on a government installation that is caused by Purchaser, its vendors or a resale buyer and shall cooperate with the SCO to support the installation's requirements for a report thereof.

(2) DRMS shall indemnify, defend, and hold harmless Purchaser, Contractor, Affiliated Parties, and their owners, officers, employees, agents, vendors and subcontractors with respect to any claim brought by any third party, including without limitation any local, state, or federal governmental entity, that arises or is alleged to arise, directly or indirectly, from environmental contamination at any federally owned or controlled property or facility, provided, however, that DRMS shall be entitled to recover from Purchaser any amounts found by a court of competent jurisdiction and identified as such in its final judgment as having been caused solely by Purchaser's failure to comply with applicable local, state or federal environmental law.

(J) **Refrigerants.** Purchaser shall remove and arrange for the proper disposal of refrigerants in accordance with applicable law, regulation and Host Installation requirements. The actual and minimum reasonable costs of such removal and disposal shall be Seller Indirect Costs.

(K) Tire, Wood, Glass and Unsaleable Material

Purchaser is required to make reasonable periodic efforts to sell tire material, classified in SCL Codes G01, G02, G03, G04, G05 and GST, wood material, classified in SCL Codes F01 and FSW, and glass material, classified in SCL Code H06, that is referred for sale to Purchaser at locations that are subject to this sale transaction and that will generate Net Proceeds after deducting related costs. Purchaser shall accordingly confer periodically with the SCO about the availability of such material at particular locations and the markets for such material, and Purchaser shall prepare, and periodically update, for the SCO's review and approval a plan for attempting sale of such material to reduce the DRMS solid waste stream and maximize Net Proceeds. Provided that Purchaser attempts such sale in accordance with such plan, Purchaser in its sole discretion may elect to take Delivery of all or part of such material that is available at any such location on such terms as the parties agree and DRMS shall then include such material on a subsequent Invoice. Should Purchaser determine in its sole discretion that any such material, or other material classified in another SCL Code, is unsaleable at particular locations or saleable only at such pricing or on such terms such that Net Proceeds would be reduced by such sale, Purchaser shall make such material available to DRMS for disposal in lieu of removal by Purchaser, provided, however, that, should the SCO so direct, Purchaser shall dispose of such material within such reasonable time as the SCO requires and the actual and reasonable costs thereof shall be deemed Seller Indirect Costs.

Purchaser acknowledges that it is responsible for compliance with all federal, state, local and installation laws and regulations pertaining to such material, including particularly applicable law governing the storage of tire material.

Section 5. Delivery Documentation.

Purchaser shall forward to the SCO photocopies of all Delivery Documentation obtained by Purchaser that was not previously furnished to the SCO. This will usually occur when Purchaser receives material from generator on behalf of DRMS.

Section 6. Risk of Loss.

DRMS shall bear the risk of loss, damage or destruction of the Property until title thereto transfers to Purchaser in accordance with the provisions of Section 3(C) above of this Article 3, and Purchaser shall bear such risk thereafter, provided, however, that (i) Purchaser shall pay to DRMS the full amount of the Quarterly Purchase Price for any item of Property lost or damaged before passage of title as a result of Purchaser's negligence, but DRMS shall have no claim for consequential damages against Purchaser or Contractor based upon such loss or damage, and (ii) Purchaser shall be entitled to a refund for the full amount of the Quarterly Purchase Price for any item of Property that is lost or damaged while located at a Delivery Point as a result of negligence on the part of the Government or any contractor of the Government, but neither Purchaser nor Contractor shall have a claim against the Government for consequential damages based upon such loss or damage, and (iii) the party asserting a claim under the provisions of this Section 6 shall serve notice thereof to the other party within a reasonable time after the facts underlying such claim are discovered or, in the circumstances, should have been discovered.

Section 7. Initial Property Sales.

(A) DRMS and Purchaser shall meet at a particular Scrap Yard on the date that is provided therefor in the Phase-In Schedule, or as agreed between DRMS and the Purchaser, and conduct an inventory (the "Initial Inventory" for that location), by SCL Code and approximate weight and, for DCS Property, DTID, NSN or LSN and DEMIL Code, of the initial Property at such location that DRMS elects in the exercise of its sole discretion to refer for sale to Purchaser. The Initial Inventories for the Initial Delivery Points shall be completed no later than the date that is three (3) months after the date of the post-award conference. The Initial Inventory for a particular location shall be deemed the initial Pickup Notice for that location, effective as of the date specified in the Phase-In Schedule or as otherwise agreed by DRMS and Purchaser, each in the exercise of its respective sole discretion.

(B) Purchaser shall not remove any Property from any Scrap Yard before the Initial Inventory of Property at such Scrap Yard is created by DRMS and Purchaser. The Initial Inventory, as supplemented by documentation of receipts of

Property at such location subsequent to the Initial Inventory but before Purchaser begins receiving referrals of Property at such location, shall constitute the Delivery Documentation for the initial Property referred for sale to Purchaser.

(C) The Phase-In Schedule shall be delayed as necessary to enable DRMS to receive and, as required in certain respects by the provisions of this contract, to approve, all of the materials and information required to be provided to DRMS under the provisions hereof. Such provisions include but are not necessarily limited to the provisions of Article 1 (Purchaser Information and Confirmation of Purchaser as Co-Signatory and Co-Obligor), Article 5 (Pre-Payment), Article 11 (evidence of required insurance coverage), and Article 20 (designation of Contractor's Appointed Arbitrator).

Section 8. Withdrawal or Re-Purchase of Property.

Any Property that has been referred for sale to Purchaser may be withdrawn by the SCO upon notice at any time before Delivery of such Property. After Delivery of particular Property, but before its re-sale to a re-sale buyer, the SCO may by notice direct the re-purchase thereof by DRMS, and Purchaser shall receive a credit on the next Invoice, for the amount of the corresponding Quarterly Purchase Price. In the cases of both withdrawal and re-purchase of Property, the costs of compliance with the SCO's directions shall be deemed Seller Indirect Costs.

ARTICLE FOUR. PICKUP NOTICES

Section 1. Content of Pickup Notices.

At least twice monthly and no more often than weekly, DRMS shall provide to Purchaser, in machine readable, comma delimited text format, delivered by electronic mail or on a removable magnetic or optical storage medium, such as a CD-ROM, a "Consolidated Pickup Notice" for all Property referred for sale under this contract since the issuance of the preceding Consolidated Pickup Notice that Purchaser has not received and for which no Pickup Notice has been issued by DRMS or a generator. All Pickup Notices, including Consolidated Pickup Notices, shall contain the following information:

(A) **DRMO Name (DRMO_NAME).**

The name of the accountable DRMO, DRMS Operation or DLA Depot in a 19 character field.

(B) **DRMO RIC and RIC Suffix (DRMO_RIC and RIC_SFX).**

Together these 3 and 1 character, respectively, alphanumeric fields provide the electronic name of the DRMO, DRMS Operation or DLA Depot where the turn-in of Property was processed.

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(C) **Disposal Turn in Document Number (DTID_NO).**

The "DTID" is the official form (DD 1348-1) used by all military services to turn in excess property. DTID_NO is a 14 or 15 character alphanumeric code in a 15 character field. It consists of:

- (1) a 6 character Department of Defense Activity Account Code (DODAAC) that identifies the turn-in activity
- (2) a 4 digit Julian date
- (3) a 4 to 5 digit serial number.
- (4) in some cases, a one-character suffix

A particular value for DTID_NO may be assigned to any weight of a particular material that is properly identified by a single SCL Code, or to any quantity of items of DCS Property that are properly identified by a single FSC. Material or objects grouped together on a single DTID_NO collectively constitute a single "Line Item" of Property. Thus, a single DTID form, each of which bears a unique combination of DTID_NO, DRMO_RIC and RIC_SFX, could list any quantity or weight of a particular type of Property. That quantity constitutes one Line Item.

(D) **SCL Code.**

This three character alphanumeric field identifies the material content.

(E) **National Stock Number (or) Local Stock Number.**

This 13 character code identifies the particular type of DCS Property that comprises the Line Item and is constructed using the following two fields:

- (1) **Federal Supply Classification (FSC).** This 4 digit numerical code identifies the general type of property (e.g., FSC 3411 is Boring Machines).
- (2) **National Item Identification Number Local Stock Number (NIIN_LSN).** A 9 position field that contains either:
 - (a) **National Item Identification Number (NIIN).** The federally assigned numerical code that identifies an item of Property as meeting certain specifications. Items that are not perfectly identical, and/or were produced by different manufacturers, but which meet identical procurement specifications, may be identified by the same NIIN.

— or —

- (b) **Local Stock Number (LSN):** Items for which the NIIN is unknown or unavailable (in many cases, items that were locally purchased or fabricated) have a text identifier assigned by the generator or at the DRMO in this 9 character field.

(F) **Inventory Item Name (INV_ITM_NAME).**

(G) Item Unit of Issue (ITM_U1).

For DCS Property, this 2 character field describes how all quantities are counted (e.g., each, box, dozen, hundred count, gross, etc.).

(H) Quantity Available (QTY_AVAIL).

For DCS Property, a 9 position numeric field containing the quantity (measured in the unit of issue) that is referred for sale to Purchaser.

(I) Property Storage Location.

This 11 character code provides the physical location of the Property as assigned by the accountable DRMO. It is constructed of the following two fields:

(1) Site Location Code (SITE_LOC_CD). This 2 character alphanumeric field identifies the storage site.

(2) Storage Location Code (STG_LOC_CD). This 9 character alphanumeric field identifies the actual storage location within the site.

(J) Reimbursement Code.

This one character alphanumeric field identifies whether or not a particular turn-in is reimbursable to a Qualified Recycling Program. A "1" indicates the item is reimbursable and a blank field indicates the item is non-reimbursable.

(K) Hazardous Material Code.

This one character field contains an "M" or a "W" if the corresponding item is deemed to be, or to be contaminated by, hazardous material or hazardous waste, respectively. The Property does not include any "M" or "W" items, so this field should always be blank.

(L) DEMIL Code.

This one character field contains the material's DEMIL Code. If the DEMIL code is other than "A", "B," "E" or "Q", the Property is DCS, and demilitarization instructions will be provided by DRMS to Purchaser.

Section 2. Documentation and References.

DRMS shall provide training (based on availability of training slots), documentation, manuals and references as reasonably requested by Purchaser to allow Purchaser to determine the meaning of coded information.

ARTICLE FIVE. PAYMENT BY PURCHASER FOR PROPERTY

Section 1. Payment of Bid Price and Payment Deposit.

(A) Payment of Bid Price.

Upon contract award, Contractor shall pay to DRMS the amount of the Bid Price. The Bid Price is non-refundable except as provided in this Section 1, Sub-Sections (B) and (C). The Bid Price must be paid via guaranteed instrument

(cashier's or certified check), wire transfer or electronic funds transfer ("EFT"). The SCO shall provide no less than ten Business Days notice to the Apparent Successful Offeror of the date that the Bid Price is due to be paid.

(B) Refund of Fractional Portion of Bid Price upon Contract Cancellation.

Upon issuance or receipt by Contractor of a notice of Cancellation of the contract, Purchaser shall withhold from subsequent Distributions to DRMS and pay to Contractor as Seller Indirect Costs amounts sufficient to return to Contractor, without interest thereon, **(i)** that fractional portion of its Bid Price determined by dividing **(x)** the number of whole or partial months between the date of award and the effective date of such notice by **(y)** eighty-four (84), minus **(ii)** any amounts then owed to DRMS or to KGP for Invoice Payments or otherwise.

(C) Refund of Fractional Portion of Bid Price upon Contract Termination.

Upon Termination of the contract, DRMS and Contractor shall negotiate the amount, if any, of the refund of a portion of the Contractor's Bid Price net of any DRMS claims against Contractor or Purchaser.

(D) Payment Deposit.

Upon award of the contract, the amount of the Contractor's Bid Deposit shall be retained by DRMS as a "Payment Deposit" until the completion of the Wind-Up. DRMS will use the Payment Deposit to offset unpaid invoices or to offset any other claims by DRMS against Contractor or Purchaser. The Government shall return any available balance of the Payment Deposit, without interest thereon, to Contractor at the completion of the Wind-Up as provided in Article 21.

Section 2. Quarterly Payment by Purchaser.

(A) Invoices.

DRMS shall submit to Purchaser in machine readable, comma delimited ASCII file format, delivered by electronic mail or on a removable magnetic or optical storage medium, such as a CD-ROM, a quarterly billing ("Invoice") for payment for the Property referred for sale to Purchaser since the last preceding Invoice. The Invoice shall be in the total amount of the Quarterly Purchase Price of the subject Property, determined pursuant to the provisions of Section 2 (C) below, less any credits to which the Purchaser is entitled and plus any debits to which DRMS is entitled (the balance being the "Total Invoiced Amount").

(B) Amounts Payable to DRMS and to KGP; Timing of Payments.

Each Invoice shall identify **(i)** an amount (the "DRMS Invoiced Amount") equal to ninety-seven and seventy-five one-hundredths percent (97.75%) of the Total Invoiced Amount, and **(ii)** an amount (the "KGP Invoiced Amount") equal

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to two and twenty-five one-hundredths percent (2.25%) of the Total Invoiced Amount. Purchaser shall pay to DRMS and to KGP the full amounts of the DRMS Invoiced Amount and the KGP Invoiced Amount, respectively, on or before the date that is fifteen (15) Days after each Invoice is submitted to Purchaser.

(C) Quarterly Purchase Price.

The amount of the "Quarterly Purchase Price" with respect to a particular calendar quarter or portion thereof is the sum, determined with respect to all Line Items of Property referred for sale to the Purchaser during such period, of the greater of (i) the Delivery Weight of such Line Item multiplied by one one-hundredth of one cent per pound (.01¢/lb.), or (ii) one cent (1¢).

Section 3. Failure to Make Timely Payments.

With respect to any particular Invoice, should Purchaser fail to pay to DRMS and to KGP the full amounts of the DRMS Invoiced Amount and the KGP Invoiced Amount, respectively, on or before the date that such payments are due, DRMS may, in its sole discretion, **(i)** apply that portion of the Payment Deposit that is necessary to pay the Total Invoiced Amount, in which event DRMS shall pay to KGP the subject KGP Invoiced Amount, and **(ii)** notify Purchaser that such failure constitutes a Material Breach that Purchaser may cure within ten (10) Days of service of notice thereof by paying to DRMS an amount calculated based on Part 2, Condition 11 of the SBR of the subject Total Invoiced Amount, which payment shall be applied by DRMS to replenish and increase the amount of the Payment Deposit.

Section 4. Payments.

Unless otherwise provided by notice, all payments to DRMS and to KGP shall be made and delivered pursuant to the following instructions, which instructions may be changed by written notice to Purchaser.

(A) Instructions for Payments to DRMS.

DRMS prefers payment be made via EFT; however, payments may also be made via wire transfer, cashier's check payable to "U.S. Treasury," or credit card. EFT and wire transfers should be made to the following account:

Mellon Bank
043000261
Account # 9101019

Include in the addendum field of the EFT the following information:

DRMS #99-4001
Type of payment (i.e., Bid Price, Invoice payment, Distribution or other)

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A separate EFT transaction must be processed for each type of payment.

A cashier's check should be sent to:

DRMS-RF ATTN: Cashier
74 N. Washington Ave.
Battle Creek, MI 49017-3092

Include in the memorandum field of the check the following information:

DRMS #99-4001
Type of payment (i.e., Bid Price, Invoice payment, Distribution or other)

Payments by credit card can be made by facsimile using the credit card form attached as Attachment VI.5.4.A and transmitted to (269) 961-7314. Credit card payments can also be made through the DRMS website at <http://www.drms.com>. Within the sale customer area, select the payments bar. Cards accepted are VISA, Discover, MasterCard and American Express.

(B) Instructions for Payments to KGP.

By: Wire transfer
[KGP to provide details after award]

ARTICLE SIX. QUANTITY DELIVERABLE; DISCREPANCIES AND ANNUAL PRICING CORRECTION; DESIGNATION OF ITEMS

Section 1. Sale by Reference Conditions.

Sale by Reference, Part 4, Condition D, Adjustment for Variation in Quantity or Weight Special Sealed Bid-Term Conditions (Standard Form 114C-2) is deleted, and Part 2, Condition No. 12, Adjustment for Variation or Weight (Standard Form 114-C) is modified to authorize the Government to vary the quantity or weight delivered as provided in Section 2 of this Article 6.

Section 2. Discrepancies.

(A) With respect to each discrepancy noted by Purchaser in terms of a Line Item of DCS Property on a Pickup Notice that is available for removal, but for which there is a material underage or overage in the "Quantity Available [QTY_AVAIL]," or product misidentification with respect to any High Value

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SCL Code on a Pickup Notice or DTID with respect to any Property (any such underage, overage, or misidentification being a "Discrepancy"), Purchaser shall provide notice to DRMS thereof with documentation of such Discrepancy within thirty (30) Days of issuance of the subject Pickup Notice and while such Property can be made available for inspection by DRMS at either a Delivery Point or a storage facility maintained by Purchaser. Failure to provide notice of an alleged Discrepancy in accordance with the criteria set forth in this subparagraph shall preclude inclusion thereof in any reports described in subsequent provisions of this Section 2 or assertion of any claim based thereupon. Within a reasonable period of time after such notification, DRMS shall review the asserted Discrepancy and notify Purchaser of acceptance or rejection thereof in whole or in part. Purchaser shall maintain such documentation as part of Purchaser's Records.

(B) Purchaser shall include with the initial Annual Report, with each Annual Report thereafter, and with the Closing Report, a compilation of all asserted Discrepancies during the period with respect to which such report is prepared, grouped by the DRMO or other location of the Property, which compilation includes a complete description of (i) each such Discrepancy accepted by DRMS in whole or in part and a calculation of the effect on the Quarterly Purchase Price of the corresponding Invoice if the Discrepancy were adjusted accordingly (a "Pricing Correction"), and (ii) each such Discrepancy rejected by DRMS in whole or in part.

(C) If the sum of the Pricing Corrections for the subject time period (the "Total Pricing Discrepancy") exceeds the amount that is three percent (3%) of the total of the Quarterly Purchase Prices billed by DRMS to Purchaser with respect to Property sold to Purchaser during such period (the "Pricing Discrepancy Benchmark"), the amount of Purchaser's next payment of an Invoice shall be increased or decreased by the amount of such Total Pricing Discrepancy minus the Pricing Discrepancy Benchmark (the "Annual Pricing Correction"). If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such Annual Pricing Correction.

(D) If the Total Pricing Discrepancy for the subject time period is equal to or less than the Pricing Discrepancy Benchmark, the Annual Pricing Correction for the subject time period shall be zero.

(E) Purchaser may seek administrative or judicial relief pursuant to the procedures specified in Part VI, Article 20 with respect to any asserted Discrepancy that is rejected in whole or in part by DRMS, provided, however, that no such action shall be commenced by Purchaser more than thirty (30) Days after submission to DRMS of the corresponding compilation of such Discrepancies required to be reported to DRMS pursuant to the provisions of Section 2(B) above of this Article 6 unless the SCO serves notice of extending such deadline.

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Section 3. Items not Available for Removal.

(A) Purchaser shall be credited the amount of the Quarterly Purchase Price attributable to any Line Item that is listed on a Pickup Notice or Invoice but that is not made available by DRMS for removal. Purchaser shall notify DRMS within thirty (30) Days of issuance of a particular Pickup Notice of Purchaser's determination that a Line Item thereon was unavailable for removal. DRMS shall review the underlying facts within a reasonable time after receipt of such notification and shall notify Purchaser of the resulting amount, if any, to be credited to Purchaser.

(B) The amount of any credit to which Purchaser is entitled pursuant to the provisions of this Section 4 shall be deducted from the amount of Purchaser's next Invoice. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(C) Purchaser may seek administrative or judicial relief pursuant to the procedures specified in Part 2, Article 20 with respect to any credit sought pursuant to the provisions of this Section 4 that is rejected by DRMS.

Section 4. Designation of Useable, Scrap and Refuse.

(A) **Downgrades Upon Receipt.**

Contractor acknowledges that DRMS reviews items that are designated as "Useable" by the generator when turned in to DRMS and, in the exercise of its sole discretion upon receipt of such items, DRMS downgrades certain items for sale as "Scrap" (each, a "Downgrade Upon Receipt," and coded as such in the DRMS automated inventory control records). Throughout the Performance Period DRMS shall exercise its sole discretion to determine the policies and procedures governing Downgrade Upon Receipt decisions, and Purchaser shall not be entitled to affect such policies, procedures or decisions.

(B) **Upgrades.**

Contractor acknowledges that (i) DRMS reviews items that are designated as "Scrap" by the generator when turned in to DRMS and, in the exercise of its sole discretion upon receipt of such items, DRMS upgrades certain items to "Useable" (each, an "Upgrade Upon Receipt"), and (ii) from time to time in the exercise of its sole discretion DRMS reviews items received and accepted as "Scrap" and upgrades certain such items after receipt to "Useable" (each, a "Post-Receipt Upgrade"). Throughout the Performance Period DRMS shall exercise its sole discretion to determine the policies and procedures governing Upgrade Upon Receipt and Post-Receipt Upgrade decisions by DRMS receiving personnel, and Purchaser shall not be entitled to affect such policies or procedures, provided, however, that such policies and procedures, and such decisions as implemented by receiving personnel at any particular DRMS facility, shall designate "Scrap" and "Useable" items and determine Upgrades Upon Receipt and Post-Receipt

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Upgrades reasonably and in good faith pursuant to the usage of such terms in the particular marketplace for a particular item at the time, Purchaser is due an adjustment to the Quarterly Purchase Price paid for items upgraded to Useable.

(C) **Refuse.**

(1) Contractor acknowledges that DRMS reviews materials that are designated as "Scrap" by the generator when turned in to DRMS and, in the exercise of its sole discretion upon receipt of such items, DRMS reclassifies certain material to "Refuse" because it has zero or negative value, and DRMS disposes of it accordingly through means of disposal other than sale. Throughout the Performance Period DRMS shall exercise its sole discretion to determine the policies and procedures governing such decisions by DRMS receiving personnel, and Purchaser shall not be entitled to affect such policies or procedures, provided, however, that such policies and procedures, and such decisions as implemented by receiving personnel at any particular DRMS facility, shall designate "Scrap" and "Refuse" items reasonably and in good faith pursuant to the usage of such terms in the scrap marketplace at the time.

(2) By written notice served upon the SCO, Purchaser may challenge the designation of a particular delivery of material as "Scrap" rather than "Refuse." DRMS may respond to such challenge in the exercise of its sole discretion, including without limitation by referring the challenge to the DRMO Chief or to another DRMS official for determination of a recommendation to the SCO. If DRMS upholds the challenge, DRMS shall dispose of the material at the sole expense of DRMS.

Section 5. Resource Recovery and Recycling Program.

(A) **RRRP Material; Qualified Recycling Programs.** Certain Scrap material qualifies as Resource Recovery and Recycling Program material ("RRRP Material"). Those generators having a Qualified Recycling Program ("QRP") may elect to sell the RRRP Material themselves. When QRPs elect this option, the material is not included within the definition of the Property and the Purchaser has no right or claim to such material sold directly by QRPs.

(B) **Reimbursable Property.** When QRPs elect to turn the RRRP Material in to DRMS, such material is therefore included within the definition of the Property and deemed referred for sale to Purchaser under this contract. RRRP Material is properly identified as "Reimbursable" on the Pickup Notice.

(C) **Reporting.** Twice monthly, or on such other schedule as DRMS and Purchaser agree, Purchaser shall report to DRMS the weight and SCL of each turn-in of RRRP Material, the generator DoDAAC, the QRP DoDAAC, and the unit pricing and amount of Gross Proceeds available from the sale of such material based upon Purchaser's sales records. **Note: the generator DoDAAC**

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and QRP DoDAAC will be different in many cases. It is important to give DRMS the QRP DoDAAC for proper reimbursements to occur.

ARTICLE SEVEN. OPERATIONS

Section 1. Compliance with Applicable Law and Regulations.

(A) Compliance with Applicable Law.

Contractor, Purchaser and its subcontractors shall comply with the requirements of all applicable federal, state, and local laws, regulations, ordinances, directives and instructions connected with the performance of this contract, including without limitation such requirements pertaining to income and payroll taxes, environmental matters and occupational safety.

(B) Licenses and Permits.

Purchaser shall obtain any necessary licenses and permits, and comply with all federal, state, and local laws and regulations in connection with the prosecution of the work. This responsibility requirement will be a matter of inquiry during the SCO's pre-award evaluation of the bidder's capability to perform the contract satisfactorily. It will also be a continuing matter of inquiry by the SCO during the performance of the contract.

(C) Responsibility for Keys.

Issuance of "Keys" (as such term is defined below) will be at the Government's sole discretion. Contractor shall establish and implement procedures that will preclude the loss, misplacement, or unauthorized use of all "Keys" issued to the Contractor or Purchaser by the Government for access to dedicated warehouse space. The term "Keys" shall be understood to include not only physical devices for opening or operating a locked item or space but also other types of individual authenticators such as key cards and passwords. Contractor will be responsible for any costs incurred from the loss, misplacement or unauthorized use of Keys. These costs will include but will not be limited to the costs of changing an individual lock and key.

Section 2. Duties of Care and Loyalty.

(A) Duty of Care.

Neither Contractor nor Purchaser shall cause or permit any action or omission in the course of performing the contract that damages Purchaser and constitutes gross negligence, recklessness or intentional harm.

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(B) Duty of Loyalty.

Contractor and Purchaser shall carry out their responsibilities under the contract with honesty, good faith and fairness toward DRMS.

Section 3. Prohibited Activities.

Purchaser shall not undertake the following activities without written permission from the SCO, which permission may be granted or withheld by DRMS in the exercise of its sole discretion:

(A) Enter into a partnership, joint venture or other arrangement the purpose or effect of which is to engage indirectly in a transaction that would be prohibited by the provisions of this contract if undertaken by Purchaser directly; or

(B) Acquire any asset not related to DRMS or enter into any transaction not related to DRMS; or

(C) Engage in any Affiliate Transaction, except for the Affiliate Transactions identified at Schedule VI.9.1.A, which are permissible on the terms and conditions set forth in such Schedule, provided, however, that Contractor may at any time request in writing a Permitted Affiliate Transaction in addition to those identified in such Schedule, and DRMS may approve, disapprove, or conditionally approve such request in the exercise of its sole discretion; or

(D) Enter into any transaction (i) other than on an arms-length basis or (ii) with pricing or other terms less favorable to Purchaser than otherwise reasonably obtainable; or

(E) Give any representations or warranties to a re-sale buyer concerning the condition or quality of an item of Property or re-sell any Property without a written affirmative disclaimer of any implied warranties of merchantability or fitness for a particular purpose, provided, however, that Purchaser may offer such representation or warranty as to a particular item or type of Property if Purchaser notifies the SCO of its intent to do so and the SCO does not object thereto within thirty (30) Days of such notice, which objection or lack of objection shall be determined by DRMS in the exercise of its sole discretion; or

(F) Enter into any transaction with respect to any item of Property under terms that could obligate Purchaser to reacquire such Property after the Performance Period; or

(G) Initiate, renew or extend any rental or lease of Property for a term that begins or ends on a date beyond the Performance Period; or

(H) Enter into contracts or other arrangements that would assign all or substantially all responsibility for and control of performance of the contract to another party or parties, without the prior written approval of DRMS which will consider such request in accordance with the Assignment of Claims Act of 1940, as amended, 41 U.S.C. sec. 15, and the Government's best interests. In the event of any improper assignment without the written approval of DRMS, this contract

shall be voidable at the option of the Government in the exercise of its sole discretion; or

(I) File a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code (or corresponding provisions of future law) or any other federal or state insolvency law; file an answer consenting to or acquiescing in any such petition; make any assignment for the benefit of Purchaser's creditors; or admit in writing Purchaser's inability to pay its debts as they mature, without prior written notice to DRMS.

Section 4. Classified, Radioactive and Certain Other Material.

(A) Classified and Certain Dangerous Material

Classified material, demilitarization required (other than DCS property), other hazardous and AEDA (ordinance / explosives) material is not within the meaning of the term "Property," and is not material that is the subject of or sold pursuant to this contract. Title to such material does not pass to the Purchaser under any circumstances, and any such material found in the possession of Contractor, Purchaser or any subcontractor(s) in or among the Property must be immediately returned to government control as directed by the SCO at government expense. Purchaser shall be credited for such expense and for the Quarterly Purchase Price attributable to any such item on an Invoice submitted by the Government in the ordinary course of administering this contract within a reasonable time after the return of such Property. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(B) Radioactive Material.

The Government shall indemnify, defend and hold harmless Contractor, Purchaser, and all of their representative employees, officers, agents and subcontractors with respect to any claims presented by third parties that allege damage arising out of radioactive Property. Purchaser shall exercise reasonable care in the circumstances to avoid accepting from DRMS or generators any material that available radioactivity test equipment indicates is radioactive above applicable legal limits. Any such material shall be returned to DRMS or the generator as directed by the SCO at government expense. Purchaser shall be credited for such expense and for the Quarterly Purchase Price of any such item on an Invoice submitted by the Government in the ordinary course of administering this contract within a reasonable time after the return of such Property. If there are no more Invoices forthcoming, the next Distributions shall be adjusted for such credit.

(C) Fluorocarbons

The minimum reasonable costs of fluorocarbon removal by Purchaser as directed by DRMS shall be deemed Seller Indirect Costs.

Section 5. Munitions List Items and Commerce Control List Items.

(A) Acknowledgment of Export Restrictions.

Contractor and Purchaser acknowledge that much of the subject material is subject to trade security controls (i.e., export restrictions), including both (i) Commerce Control List Items ("CCLI") that are designated by the Department of Commerce pursuant to the provisions of the Export Administration Act of 1979, Executive Order 12924 and regulations promulgated thereunder and that have a DEMIL Code of "Q," and (ii) Munitions List Items ("MLI") that are designated by the Department of State pursuant to the provisions of the Arms Export Control Act and implementing regulations and that have a DEMIL Code of "B."

(B) Purchaser's TSC Clearance and End Use Certificate.

Prior to award of this sale contract, (i) Purchaser shall submit to the SCO a properly completed End-Use Certificate (EUC) DLA Form 1822 (copy of which form is attached as Attachment VI.7.5.B), and (ii) Purchaser shall obtain clearance from the DLA Trade Security Controls enforcement office as a buyer of DEMIL "B" and/or "Q" items. Such clearance and EUC shall be deemed effective for five (5) years unless there are material changes in the information on the EUC.

(C) Re-Sale Procedures.

(1) For all MLI and CCLI (i.e., DEMIL "B" and "Q") Property not mutilated by the Purchaser, the Purchaser shall promulgate in all re-sale advertisements and catalogs, as well as in the terms and conditions of sale, a notice to prospective buyers that the terms may require export permits. The wording of such notice shall be approved in advance by DRMS in the exercise of its sole discretion. Before releasing a particular item of DEMIL "B" or "Q" Property to a prospective re-sale buyer, (i) Purchaser shall obtain a completed EUC from such buyer for each lot (or group of lots at a single re-sale event) of such Property and furnish a copy thereof to DRMS, (ii) Purchaser shall confirm with DRMS through the SCO that such buyer is cleared for the purchase of DEMIL "B" and "Q" items, and, no later than the release of the material for removal by the re-sale buyer, Purchaser shall obtain from the re-sale buyer and place in the Records an acknowledgement executed by the re-sale buyer of the buyer's responsibility to destructively "scrap" the material in a manner that prevents recognition or reconstruction of the original item and of its responsibility to submit to the Purchaser a written post-scraping certification that the scrapping has been accomplished. Purchaser shall place the completed post-scraping certification in the Records and make it available for review by the appropriate authorities.

(2) Material (DEMIL “A” metallic and DEMIL “B” and “Q”) that has already been destructively “scrapped” before re-sale, either by the

generator or by the Purchaser, in a manner that prevents recognition or reconstruction of the original item will be considered DEMIL “A” and can then be sold and/or released to a re-sale buyer without an EUC or TSC clearance. The Purchaser shall place a certification of the destructive scrapping in the Records and make it available for review by the appropriate authorities.

(D) Compliance with EUC Requirements.

Subject to such additional or different requirements pertaining to DEMIL “B” and “Q” Property that DRMS may prescribe in its sole discretion, Purchaser shall comply with all of the provisions set forth on the EUC that Purchaser submits to DRMS through the SCO.

(E) Shipping Containers.

Purchaser shall notify the SCO or, in the alternative, the Trade Security Control Residence Office designated in a notice from the SCO, whenever a “Shipping Container” is used by a re-sale buyer to pick up MLI/CCLI material. A “Shipping Container” is defined as a 20 or 40 foot all steel receptacle, enclosable/sealable, used for transport of property by rail, sea, or ground. As much identification information as the Purchaser can reasonably obtain should be provided including the container number, container company, trucking company name/address, any other identification data known, date(s) of removal, and any interim or final destination port information. The SCO will serve notice to Purchaser of specific instructions regarding whom and how to notify (i.e., via fax or phone), to include identification and contact information and geographic areas of responsibility for each TSC investigator.

(F) Compliance with New Trade Security Control Requirements

Purchaser shall comply with all trade security control procedures, requirements and restrictions that DRMS prescribes in its sole discretion. All costs of such compliance shall be deemed Direct Costs.

(G) Trade Security Control Records

The documentation required by the provisions of this Section 5 of Article 7 shall be placed in the Records and shall be kept available for review by DRMS or trade security control authorities throughout the Performance Period and until the conclusion of the Wind-Up and retained in accordance with Article 8, Section 1.

Section 6. Employee Compensation

(A) Base Compensation.

Compensation of Purchaser’s employees (including fringe benefits) that is determined on a salaried or hourly basis, and paid in an amount determined without regard for the performance of the employee, or the profitability or other performance of Purchaser or of Contractor (“Base Compensation”), shall be

deemed a Direct Cost, provided, however, that no employee’s Base Compensation shall be plainly excessive when evaluated with regard for Purchaser’s circumstances and such employee’s qualifications and responsibilities.

(B) Bonuses.

Compensation of Purchaser’s employees other than Base Compensation, including without limitation, the total amount of any bonuses paid within any calendar year to a particular employee in excess of one-quarter (25%) of such employee’s total compensation for such year, is a Contractor Indirect Cost and shall be borne solely by Contractor.

(C) Benefits.

The cost of employer-paid benefits shall be deemed a Direct Cost, provided, however, that no employee’s benefits shall be plainly excessive when evaluated with regard for Purchaser’s circumstances and such employee’s qualifications and responsibilities. The provision of luxury automobiles and travel other than in economy class shall conclusively be deemed plainly excessive, and all of the costs thereof shall be deemed Contractor Indirect Costs.

Section 7. Employee Expenses and Purchaser’s Supplies, Furniture and Equipment.

(A) Employee Expenses.

If any employee or former employee of Purchaser is hired by an Affiliated Party during the term of such employee’s employment with Purchaser or within twelve (12) months following the termination of such employment, Contractor will pay to Purchaser a reasonable pro rata share of such employee’s training costs, relocation expenses, and employment agency fees to the extent paid, reimbursed, or

otherwise incurred by Purchaser in connection with such employee, provided, however, that no such reimbursement will be required if such employee had been employed by Purchaser continuously for eighteen (18) months or longer after the date of award.

(B) Supplies, Furniture and Equipment.

Purchaser shall not purchase supplies, furniture or equipment except to the extent that such supplies, furniture or equipment will be used solely by Purchaser, and upon the sale of such furniture or equipment, the proceeds shall be the property of Purchaser. Purchaser shall not sell such supplies, furniture or equipment to an Affiliated Party. During the Wind-Up Purchaser shall sell any remaining supplies, furniture or equipment to a third party or parties.

Section 8. Commerce Control List Items (CCLI).

(A) Purchaser warrants and covenants that none of the CCLI items identified in this Invitation for Bids and listed on its sale contract will be directly or indirectly used or disposed of for military use or exported.

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(B) Purchaser understands and agrees that all material other than the categories listed in Section V require Mutilation and the Office of Export Administration may require the Purchaser to have or obtain an export license before mutilated Property may be exported outside of the United States, Puerto Rico, American Samoa, Guam the Trust Territory of the Pacific Islands or the Virgin Islands. The disclosure must reference this Invitation for Bids and sale contract number, and be submitted to:

Office of Export Administration
P.O. Box 273
Washington, DC 20044

Section 9. Munitions and Commerce Control List Item (MLI/CCLI) Compliance.

(A) The use, disposition, export and re-export of MLI/CCLI property is subject to all applicable United States laws and regulations, including the Export Administration Control Act of 1979 (50 U.S.C. Appx. 2401, et seq.); Arms Export Control Act (22 U.S.C. 2651, et seq.); International Traffic in Arms Regulation (22 C.F.R.121); and Export Administration Regulation (15 C.F.R. 368, et seq.), which in part prohibit:

- (1)** Making false statements and concealment of any material information regarding the use, disposition, export or re-export of the property;
- (2)** Any use, disposition, export or re-export of the property not authorized in accordance with the provisions of this contract.

(B) Any false information provided and/or concealment of any material information regarding the use, disposition, or export of this property may constitute a violation of:

- (1)** The provisions of 18 U.S.C. 1001, which provides a maximum penalty of five years imprisonment and/or a maximum fine of \$10,000;
- (2)** The provisions of 22 U.S.C. 22778, which provides a maximum penalty of ten years imprisonment and/or a maximum fine of \$1,000,000; or,
- (3)** The provisions of 50 U.S.C. Appx. 2410, which provides a maximum penalty of ten years imprisonment and/or a maximum fine of five times the value of the property exported or \$1,000,000, whichever is greater, and which also provides for administrative sanctions, including civil penalties.

Section 10. Large Caliber (over 30 mm) Shell Cases, Demilitarization as a Condition of Sale, and Hazardous Components/Constituents.

(A) Large Caliber (over 30mm) Shell Cases

The sale of the Property is entered into by the United States with the expressed declaration that the United States awards the Property to Purchaser relying on the

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following representation, warranties and covenants by Purchaser: Purchaser herein certifies that it is not purchasing any of the items (large caliber (over 30mm) shell cases) for military use; Purchaser warrants and covenants that it will not, directly or indirectly, use or dispose of in any fashion the items for military use; Purchaser warrants and covenants that it will include this clause in its entirety in any later sale or transfer of title, or possession by Purchaser herein or its successor in title or interest; Purchaser warrants and covenants that the items will not be exported for military use, and if exported for any reason a full disclosure of their origin by reference to this IFB number will be made to the appropriate export licensing department or agency.

(B) Demilitarization as a Condition of Sale.

Property requiring demilitarization as a condition of sale will be demilitarized by Purchaser or by the re-sale buyer when approved by the SCO. All demilitarization and surveillance plans must be coordinated with and approved by the SCO. All costs incurred by Purchaser to effect demilitarization shall be deemed Direct Costs. Costs incurred by the re-sale buyer are the sole responsibility of the re-sale buyer. Demilitarization will be effected by melting, popping, crushing, deforming or otherwise mutilating the property so as to completely destroy its lethal purposes. The use of precision torch fixtures, saws, tools of any kind to minimize mutilation/demilitarization is forbidden.

(C) Hazardous Components/Constituents.

The government cautions that the Property may have components, parts, constituents or ingredients that may be corrosive, reactive, ignitable or exhibit other hazardous or toxic properties. Purchaser is cautioned to use and ultimately dispose of any hazardous components or constituents according to all applicable local, national or international laws and regulations in a manner safe for the public and the environment.

Section 11. Statutory and Regulatory Notices

The provisions of Attachment VI.3.11 are incorporated by reference.

**ARTICLE EIGHT. PURCHASER'S RECORDS; INSPECTION AND AUDIT BY
GOVERNMENT AND INDEPENDENT AUDITOR; ACCOUNTING PRINCIPLES AND
REQUIRED REPORTS TO GOVERNMENT**

Section 1. Contractor Records Retention.

Contractor shall make available Purchaser's books, records, documents, and other supporting evidence, including without limitation all items required by the provisions of Article 9 (the "Records"), to satisfy contract administration and audit requirements of the Department of Defense and the Comptroller General for six (6) years after the Wind-Up is concluded, or for such period of time as Contractor, for its own purposes, retains its books, records, documents, and other supporting evidence, whichever is longer.

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Section 2. Inspection of Records and Workplace by Government.

To ensure that DRMS has a means to verify accuracy of the Records and inventory, DRMS or its authorized representative has the right to audit the Records and inventory the Property and to review Purchaser's operations with reasonable advance notice. The audit may consist of a complete or random sample examination. Purchaser must ensure that, prior to re-sale, the Property is readily identifiable as formerly Government property. Inspections may be conducted by DLA Trade Security Control personnel with no notice.

Section 3. Records Maintenance.

Contractor shall maintain the Records accurately and in a manner that will allow clear and accurate auditing. The Records pertaining to all Deliveries, inventory, re-sales of Property and removal of Property shall contain, at a minimum, National Stock Number or Local Stock Number and quantity, if applicable, SCL Code, Disposal Turn-In Document Number, weight ticket, Re-sale Weight, re-sale price per unit of weight, date removed from the Delivery Point, date sold, price in total per re-sale transaction and, for each, re-sale price per unit of Re-sale Weight, date Purchaser received payment from the re-sale buyer, name and address of re-sale buyer, and storage location prior to re-sale. A separate inventory list must be maintained for each Scrap Yard and each of Purchaser's storage facilities. The Government reserves the right to request and inspect these documents as it deems necessary with reasonable notice. In the event that Purchaser fails to maintain or provide any of these documents to the Government, the Government may in its sole discretion cause Termination.

Section 4. Contracts with Third Parties.

Purchaser shall ensure that all contracts entered into by Purchaser shall expire or shall be terminable by Purchaser within the Performance Period. If Purchaser reasonably anticipates that the annualized cost of payments by Purchaser to a particular third party will exceed one hundred thousand dollars (\$100,000.00), Purchaser shall enter into a written contract with such third party that includes a provision requiring that, during the life of such contract and for a period of three (3) years following final payment under such contract, DRMS or its designated representative shall have access to, and the right to examine and copy, any directly pertinent books, documents, papers, records or other recorded information, and to examine any directly pertinent property within such third party's possession or control, involving transactions related to the contract.

Section 5. Purchaser's Books of Account; Financial Reports.

Purchaser shall maintain true and correct books and records of account. The books and records of account shall be maintained on an accrual basis in accordance with Generally Accepted Accounting Principles ("GAAP"), and reports by Purchaser to DRMS and KGP ("Purchaser's Reports") shall consist of the following:

(A) Transition Report.

Within one hundred eighty (180) Days of the date of award, or on such date thereafter as DRMS specifies in the exercise of its sole discretion, Purchaser

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shall provide to DRMS in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, a report (the "Transition Report") that specifies Purchaser's operating plan for performing the contract through the balance of the Performance Period. The Transition Report shall address the following topics:

- (1) Storage facilities in place and projected.
- (2) Shipping arrangements in place and projected.
- (3) Logistical or administrative difficulties encountered to date, and proposed or effected resolution thereof.
- (4) Marketing opportunities and problems encountered to date, proposed resolution of the problems, and plans for adding value to the Property.
- (5) Any other logistical, administrative, marketing or other issues that Purchaser determines should be brought to the attention of DRMS.

(B) Monthly Report.

By the fifteenth (15th) Day of each calendar month, Purchaser shall provide to DRMS in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, both financial statements (including a statement of cash flows) prepared according to GAAP and the following information (collectively, the "Monthly Report") with respect to the preceding calendar month, provided, however, that the initial Monthly Report shall pertain to the period from the date of award through the last Day of the calendar month that includes the date of award:

- (1) An "Inventory Status Report" that includes the following for each item of Property:
 - a. Amounts and date(s) of all revenues received with respect to each sale of Property sold during the month, including, for each re-sale of Property, re-sale date, total re-sale revenue and re-sale price per unit of weight, weight ("Re-Sale Weight"), identification by SCL Code(s), and identification of the re-sale buyer of each such item.
 - b. Inventory on hand at the close of the month,
- (2) Seller Indirect Costs
- (3) ECLR statement
- (4) Income statement
- (5) Detail and summary of:
 - a. Distributions
 - b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance

- c. Purchase Advances and Purchase Transfers
- (6) Status report of progress in correcting any deficiencies identified by a DRMS inspection, regulatory inspection, audit or Compliance Review or Further Review, which must include Purchaser's plan to comply with discrepancies noted or questions asked in writing by the SCO or Independent Auditor.

(C) Quarterly Report.

Purchaser shall provide to DRMS and to KGP the following quarterly financial information (the "Quarterly Report"), in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, and prepared in accordance with GAAP, within forty-five (45) Days of the close of each calendar quarter with respect to such calendar quarter, provided, however, that the initial Quarterly Report shall pertain to the period from the date of award through the last Day of the calendar quarter that includes the date of award:

- (1) Income statement
- (2) Balance sheet
- (3) Statement of cash flows
- (4) Notes to financial statements
- (5) Inventory status and disposition report
- (6) Detail and summary of:
 - a. Distributions
 - b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
 - c. Purchase Advances and Purchase Transfers
- (7) ECLR statement

(D) Annual Report.

Purchaser shall provide to DRMS and to KGP the following annual financial information (the "Annual Report"), in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, prepared in accordance with GAAP and audited by an independent national accounting firm (the "Independent Auditor") pursuant to American Institute of Certified Public Accountants ("AICPA") standards, within one hundred twenty (120) Days of the close of each twelve (12) calendar month period with respect to such period, provided, however, that the initial Annual Report shall pertain to the period from the date of award through 30 September 2004:

- (1) Income statement
- (2) Balance sheet
- (3) Statement of cash flows

- (4) Notes to financial statements
- (5) Inventory status and disposition report
- (6) Detail and summary of:
 - a. Distributions
 - b. Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
 - c. Purchase Advances and Purchase Transfers

- (7) ECLR statement
- (8) The Independent Auditor's (i) Management Letter and (ii) list of Audit Adjustments whether posted to the Records or not
- (9) As soon as available, but no later than the last day permitted by law, Federal tax returns and all supporting schedules

(E) Closing Report.

(1) Purchaser shall provide to DRMS and to KGP the following financial information (the "Closing Report") pursuant to the provisions of Section 4 of Article 21, in machine readable, comma delimited ASCII file format or, as appropriate, word processing (*.doc) file format, delivered on a removable magnetic or optical storage medium, such as a CD-ROM, prepared in accordance with GAAP and audited by the Independent Auditor pursuant to AICPA standards, with respect to the period since the then most recently filed Annual Report:

- a. Income statement
- b. Balance sheet
- c. Statement of cash flows
- d. Notes to financial statements
- e. Inventory status and disposition report
- f. Detail and summary of:
 - (i) Distributions
 - (ii) Working Capital Advances and repayments thereof, and the Working Capital Advance Balance
 - (iii) Purchase Advances and Purchase Transfers
- g. ECLR statement
- h. The Independent Auditor's (i) Management Letter and (ii) list of Audit Adjustments whether posted to the Records or not
- i. As soon as available, but no later than the last day permitted by law, closing Federal tax returns and all supporting schedules

(2) Within sixty (60) Days of submission of the Closing Report or, as the case may be, within sixty (60) Days of the re-submission of a Closing Report initially disapproved by DRMS, DRMS shall either serve notice of its disapproval of the Closing Report and state the reasons therefor, or

serve notice of its approval. The Closing Report shall not be deemed final until approved by DRMS, which approval shall not be unreasonably withheld.

(F) Reporting Schedule.

Purchaser shall submit Monthly, Quarterly and Annual Reports in accordance with the provisions of this Section 5 to DRMS and to KGP with respect to each calendar month, each calendar quarter and each twelve (12) month period ending 30 September, respectively, from the date of award until DRMS approval of the Closing Report.

ARTICLE NINE. DIRECT COSTS

Section 1. Definitions.

(A) Direct Costs.

Except as otherwise provided herein, "Direct Costs" are all costs other than (i) amounts paid to DRMS and KGP for the purchase of Property, (ii) Seller Indirect Costs and (iii) compensation and transportation expenses of Purchaser's Chief Executive Officer, that are actually incurred by Purchaser for the sole purpose of performing this contract, including without limitation costs incurred for the management, storage, marketing, preservation, improvement, transportation and disposition of the Property (including all costs commonly termed "overhead costs") and either (x) paid to any Person that is not an Affiliated Party or (y) paid to an Affiliated Party and constituting one of the "Permitted Affiliate Transactions" identified at Schedule VI.9.1.A. At any time after award, the Purchaser may request that a particular transaction with an Affiliated Party be deemed a Permitted Affiliate Transaction. DRMS may grant, deny or condition approval thereof as it determines in the exercise of its sole discretion. Such a request should fully specify the details of the proposed transaction, the opportunity presented to enhance Net Proceeds, any inherent risks to the Government in terms of pricing, accountability for Property or otherwise, and the controls to be put in place to offset such risks.

(B) Seller Indirect Costs.

"Seller Indirect Costs" are (i) subject to the provisions and limitations of Section 4(F) of Article 3, all costs that are actually incurred by Purchaser for the packing, loading and transport of Property referred for sale to Purchaser at a Restricted Access Facility or Special Situation Location, that does not allow on-site processing, and either (x) paid to any Person that is not an Affiliated Party or (y) paid to an Affiliated Party and constituting one of the "Permitted Affiliate Transactions" identified at Schedule VI.9.1.A, or (ii) as otherwise provided herein.

(C) Contractor Indirect Costs.

“Contractor Indirect Costs” are all costs that are neither Direct Costs nor Seller Indirect Costs, and there shall be no amounts paid or payable by Purchaser therefor.

Section 2. Documentation and Payment of Direct Costs and Seller Indirect Costs.

(A) Disbursements.

Purchaser shall make all disbursements from the Operating Account or a Transfer Account. Disbursements for Direct Costs and Seller Indirect Costs shall be made pursuant to the provisions of Article 13; disbursements for Distributions and other adjustments shall be made pursuant to the provisions of Article 16; disbursements for repayment of Working Capital Advances shall be made pursuant to the provisions of Article 13; and Purchase Transfers shall be made pursuant to the provisions of Article 14.

(B) Supporting Documentation.

Subject to subsection (C) of this Article 9, each disbursement for a Direct Cost and a Seller Indirect Cost shall be supported in the Records by bona fide documentation (including, if appropriate, records in an electronic or magnetic medium) that adequately demonstrates that each such disbursement is in the proper amount for goods or services actually provided in advance of such disbursement if the disbursement is to an Affiliated Party or, if the disbursement is to a third party that is not an Affiliated Party, for goods or services actually provided or to be provided, or costs actually incurred or to be incurred. Purchaser shall place such documentation in the Records in advance of, or contemporaneously with, each such disbursement.

(C) Documentation Requirements.

Except in the case of a disbursement in the amount of Fifty Dollars (\$50) or less, the supporting documentation required under this Article 9 shall include, at a minimum, a written invoice or comparable document from the provider that (i) identifies the payee and itemizes each particular invoiced product or service and the provider thereof, if different from the payee; and (ii) states the pricing and relevant terms as to each such product or service. Although the foregoing bona fide documentation shall as a matter of general principle be required for all disbursements, where the amount at issue is less than One Thousand Dollars (\$1,000) and where the documentation is missing or was inadvertently omitted. Purchaser may, in lieu of such documentation, provide a certificate in the Records executed by an authorized officer that: (x) identifies the payee and itemizes each particular invoiced product or service and the provider thereof, if different from the payee, and (y) states the pricing and relevant terms as to each such product or service.

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(D) Payment.

Upon placing the documentation and/or certificate required by this Article 9 in the Records, Purchaser shall pay the proper amount of each Direct Cost and Seller Indirect Cost.

(E) Written Certification to DRMS.

Within fifteen (15) Days after the end of each calendar month that is in whole or in part within the Performance Period or the Wind-Up, Purchaser shall provide written certification to DRMS, in the form specified at Attachment VI.9.2.E and executed by a Key Person, that all disbursements have complied with the provisions of this contract.

(F) Contractor Indirect Costs.

Contractor shall pay from its own funds before imposition of fine or penalty amounts due and payable for Contractor Indirect Costs. Contractor shall have no right of reimbursement for, and shall not use the Operating Account or any Transfer Account for, the payment of costs within the scope of this Section 2(F).

ARTICLE TEN. CONFLICTS OF INTEREST

Section 1. Restriction on Participation.

Once Property under this contract is re-sold by Purchaser, neither Purchaser nor an Affiliated Party shall knowingly purchase such material directly or indirectly for a period of one year after the completion of the Wind-Up. All re-sales of Property shall be bona fide, arms-length transactions intended to provide both the Government and Purchaser maximum Net Proceeds. Purchaser may not re-sell Property directly or indirectly to an Affiliated Party. Purchaser shall not sell, consign, let, rent, lend or donate Property on terms that directly or indirectly provide any benefit to an Affiliated Party.

Section 2. Benefits to Contractor and Affiliated Parties.

Contractor shall assure that neither Contractor nor any Affiliated Party obtains goods, assets, tangible or intangible property or services from third-party vendors to Purchaser at prices or on terms more favorable than those that would otherwise be available to Contractor or the Affiliated Party absent the relationship between Purchaser and such third-party vendors. The foregoing requirement shall not apply to benefits from volume purchasing of goods, assets, tangible or intangible property or services by Contractor, Affiliated Parties and Purchaser where such volume purchasing does not benefit one purchasing party over another.

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ARTICLE ELEVEN. FIDELITY BOND REQUIREMENTS; INSURANCE

Section 1. Modification of Special Circumstance Conditions.

Sale by Reference (Attachment V) Part 5: Additional Special Circumstance Conditions - Miscellaneous (DRMS Form 86, Oct 93), Article D, Liability and Insurance, paragraphs (a)(2) and (a)(3,) are modified as follows:

- (2) Bodily Injury Insurance in an amount of not less than two hundred fifty thousand dollars (\$250,000.00) any one individual and one million dollars (\$1,000,000) any one accident or occurrence.
- (3) Property Damage Liability Insurance in the amount of two hundred fifty thousand dollars (\$250,000.00) (which shall include any and all property whether or not in the care, custody or control of Purchaser). The annual coverage shall be not less than one million dollars (\$1,000,000).

Section 2. Further Modifications.

Sale by Reference Part 5, Article D, paragraph (a) is also amended as follows:

- (4) "All-Risk" coverage for fire and other property perils for all property owned by Purchaser with aggregate coverage of one million dollars (\$1,000,000.00).
- (5) Umbrella liability coverage up to two million dollars (\$2,000,000.00).
- (6) Fidelity Blanket Bond. Purchaser shall obtain, and maintain at all times until the completion of the Wind-Up, fidelity or blanket bond coverage in the amount of at least one million dollars (\$1,000,000.00) (the "Fidelity Bond"). Purchaser shall obtain and maintain such coverage with a responsible surety company with respect to all of Purchaser's employees, officers and directors to protect Purchaser against losses, including, without limitation, those arising from theft, embezzlement, fraud, or misplacement of funds, money, or documents. The issuer, policy terms and forms and amounts of coverage, including applicable deductibles, shall be satisfactory to DRMS, and the policy shall include a provision that the issuer shall notify DRMS in writing within five (5) Business Days of the cancellation or termination of any such coverage or of any modification of such coverage. Purchaser shall notify DRMS in writing within five (5) Business Days after filing a claim under such coverage.
- (7) Other Insurance. Purchaser shall obtain, and maintain at all times until the completion of the Wind-Up, such comprehensive general liability, automobile liability, umbrella liability, worker's compensation and other insurance coverage as may be required by law. At its option, Purchaser may obtain and maintain such additional insurance, including directors and officers coverage and errors and omissions coverage, as Purchaser deems appropriate.
- (8) Costs of Required and Other Coverage. Purchaser shall pay from the Operating Account pursuant to the provisions of Article 13 all premiums and deductibles incurred for all insurance coverage (which shall be deemed to be Direct Costs) except directors and officers coverage and errors and omissions coverage, and such disbursements shall be

treated as Direct Costs. Premiums and deductibles for directors and officers coverage and errors and omissions coverage shall be considered an Indirect Cost and such insurance shall be obtained and maintained at Contractor's sole cost and expense.

- (9) Evidence of Insurance. Within thirty (30) Days of the date of award, and annually thereafter, Purchaser shall provide to DRMS copies of policies, certificates of insurance or other proof evidencing the coverages required.
- (10) Purchaser must obtain the minimum coverages specified herein unless DRMS approves a variance from such minimum coverages. In the event that a specified coverage or limit is or in the future becomes commercially impractical, such approval shall not be unreasonably withheld.

ARTICLE TWELVE. SOFTWARE AND SYSTEMS

Section 1. Identification of Systems and Software Developed with Contractor Funds.

(A) All accounting or reporting systems (other than hardware and other equipment) or software (and all related User Documentation relating to such systems and software) owned by Contractor, or otherwise obtained or developed by Contractor solely at Contractor's expense, excluding Third-Party Software, that Contractor or Purchaser uses in the performance of this Contract (collectively, "Contractor Systems and Software") shall be the sole property of Contractor. Schedule VI.12.1.A identifies all Contractor Systems and Software that Contractor anticipates being used in the performance of this contract. From the date of award until completion of the Wind-Up, Contractor or Purchaser shall update Schedule VI.12.1.A to the extent necessary to reflect the use of Contractor Systems and Software accurately and shall quarterly inform DRMS in writing of any changes to Schedule VI.12.1.A.

(B) Contractor may use, license, sublicense, assign, transfer or otherwise market Contractor Systems and Software to any other Person (including without limitation to any Affiliated Party) without DRMS's consent. Such use or marketing of Contractor Systems and Software shall be made upon such terms and conditions as Contractor may determine in its sole discretion and without compensation to Purchaser or to DRMS, provided, however, that such terms and conditions shall not prejudice DRMS's rights to use Contractor Systems and Software as set forth in Section 2 below.

Section 2. License in Contractor Systems and Software.

(A) DRMS shall have a non-exclusive, irrevocable and unconditional license, until the completion of the Wind-Up and for a period of three (3) years thereafter, and without additional cost to DRMS (except as otherwise provided herein), and a right to have delivered to it for DRMS and its designated representatives to use,

solely on DRMS's own behalf in managing any "Remaining Assets" (as such term is defined in Article 21 below) and in reviewing Contractor's and Purchaser's performance of their obligations under this contract, any and all Contractor Systems and Software used in the performance of Contractor's and Purchaser's services under this contract; provided, however, that such delivery shall be only in the format and structure that is used by Contractor and/or Purchaser in performing their services under this contract.

(B) Contractor makes no representations, warranties or indemnities with respect to such Contractor Systems and Software, provided, however, that Contractor will use its best efforts to assure that Purchaser's computer data retention and transfer procedures maintain the integrity, reliability and security of the original data. Contractor shall be responsible for training or for conversion or installation of such Contractor Systems and Software to Purchaser's systems or equipment, and shall cause such training, conversion or installation to be performed from time to time as may be reasonably necessary for the effective and efficient operation of Purchaser's business. To the extent that such services are performed by an Affiliated Party, the costs thereof shall be Indirect Costs and borne solely by Contractor. Contractor shall not be responsible for training or for conversion or installation of such Contractor Systems and Software to DRMS's systems or equipment or for any costs or expenses thereof.

(C) Contractor shall not be responsible for maintaining or enhancing Contractor Systems and Software, either before or after completion of the Wind-Up, but Contractor shall cause such maintenance of Contractor Systems and Software to be performed as may be necessary for the effective and efficient operation of Purchaser's business. To the extent that such maintenance is performed by an Affiliated Party, the costs thereof shall be Indirect Costs borne solely by Contractor. To the extent that Contractor causes enhancements of Contractor Systems and Software to be performed, if Contractor elects to make them at its own expense, they shall be the property of Contractor and shall be subject to the provisions of Section 1 and this Section 2 pertaining to Contractor Systems and Software; if Contractor elects to make enhancements at Purchaser expense so that they fall within the definition of Purchaser Systems and Software set forth in Section 3, they shall be subject to the provisions of that Section.

Section 3. Systems and Software Developed.

(A) Costs associated with the development of any accounting or recording systems (other than hardware and equipment), application software or any other software or documentation in connection with this contract are deemed to be the sole responsibility of the Contractor and not to be reimbursed as part of this transaction.

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(B) Contractor shall have a non-exclusive, irrevocable and unconditional license, and without additional cost to Contractor, and a right to have delivered to it, to use, sublicense, transfer or otherwise market Purchaser Systems and Software.

(C) If Purchaser develops any accounting or recording systems (other than hardware and equipment) or application software or any other software or documentation for use in connection with Purchaser's business that do not fall within the definition of Purchaser Systems and Software in this Section 3 ("Other Systems and Software"), such Other Systems and Software shall be the sole property of Contractor. Contractor may use, license, sublicense, assign, transfer or otherwise market Other Systems and Software to any other Person (including, without limitation, to any Affiliated Party) without DRMS's consent. Such use or marketing of Other Systems and Software shall be made upon such terms and conditions as Contractor may determine in its sole discretion and without compensation to Purchaser or to DRMS, provided, however, that such terms and conditions shall not prejudice DRMS's rights to use Contractor Systems and Software as set forth in Section 2, above.

(D) DRMS shall have a non-exclusive, irrevocable and unconditional license, until completion of the Wind-Up and for a period of six (6) years thereafter, and without additional cost to Purchaser or to DRMS (except as otherwise provided herein), and a right to have delivered to it for DRMS and its designated representatives to use, solely on DRMS's own behalf in managing any Remaining Assets and in reviewing Contractor's and Purchaser's performance of their obligations under this contract, Other Systems and Software; provided, however, that such delivery shall be only in the format and structure that is used by Contractor and/or Purchaser in performing their services under this contract.

(E) Contractor makes no representations, warranties, or indemnities with respect to Purchaser Systems and Software or Other Systems and Software, provided, however, that Contractor agrees that it will use its best efforts to assure that computer data retention and transfer procedures maintain the integrity, reliability and security of the original data. Contractor shall not be responsible for maintaining or enhancing Purchaser Systems and Software or Other Systems and Software, either before or after completion of the Wind-Up, but Contractor shall cause such maintenance of Purchaser Systems and Software and Other Systems and Software to be performed until completion of the Wind-Up as may be reasonably necessary for the effective and efficient operation of Purchaser's business. To the extent that Contractor causes enhancements of Purchaser Systems and Software or Other Systems and Software to be performed at Purchaser's expense, such enhancements shall be the property of Purchaser until completion of the Wind-Up.

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Section 4. Third-Party Software.

All third party software that Contractor uses in the performance of its services under this contract is referred to herein collectively as "Third-Party Software." Schedule VI.12.4 identifies all Third-Party Software that Contractor anticipates will be used by Purchaser in the performance of its services under this Agreement. Until completion of the Wind-Up, Contractor shall update Schedule VI.12.4 to the extent necessary to reflect its use of Third-Party Software accurately and shall quarterly inform DRMS in writing of any such additions to Schedule VI.12.4. To the extent that Contractor elects to use any Third-Party Software under which it holds a use license on the date of award in connection with Purchaser's business, Contractor shall transfer to Purchaser any such existing use license for such Third-Party Software as soon as possible after the date of award. In addition, it shall use reasonable efforts to obtain, as part of

such transfer and at the expense of Purchaser as a Direct Cost, a sublicense for DRMS and its designated representatives to access and use the Third-Party Software. To the extent that Contractor or Purchaser elects to acquire Third-Party Software for use in connection with Purchaser's business following the date of award, Contractor shall, at the expense of Purchaser as a Direct Cost, obtain a use license for such Third-Party Software for Purchaser along with a sublicense for DRMS and its designated representatives to access and use the Third-Party Software.

Section 5. Software Documentation and Maintenance.

(A) Contractor or Purchaser shall retain all user documentation relating to any application or use of any and all accounting or recording systems or software, including without limitation all training manuals used or developed in connection with Contractor's or Purchaser's performance of services under this contract (the "User Documentation"). Contractor or Purchaser shall provide the originals or copies of such User Documentation, along with any updated non-third party source code with any related narratives, design level documents and schematics to all Contractor Systems and Software, all Other Systems and Software, and all Purchaser Systems and Software, to DRMS upon completion of the Wind-Up at DRMS's request; provided, however, that delivery of such User Documentation, source code and other materials by Contractor to DRMS shall be only in the format and structure that is used by Contractor and/or Purchaser in the performance of services under this Contract.

(B) Contractor makes no representations, warranties, or indemnities with respect to such User Documentation, source code and other materials, provided, however, that Contractor agrees that it will use its best efforts to assure that the User Documentation, source code and other materials will be maintained to ensure the integrity, reliability and security of those items. Contractor shall not be responsible for any training, maintenance or enhancement with respect to such User Documentation, source code or other materials, either before or after completion of the Wind-Up, but Contractor shall cause such maintenance of the User Documentation to be performed until completion of the Wind-Up as may be

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reasonably necessary for the effective and efficient operation of Purchaser's business. To the extent that such training, maintenance or enhancements are performed by an Affiliated Party, the costs thereof shall be Indirect Costs and born solely by Contractor. To the extent that Contractor causes enhancements of User Documentation to be undertaken at Purchaser expense as a Direct Cost, such enhancements shall be the property of Purchaser until completion of the Wind-Up.

ARTICLE THIRTEEN. OPERATING ACCOUNT; WORKING CAPITAL

Section 1. Operating Account.

(A) Establishment.

Within thirty (30) Days of the date of award Purchaser shall establish, and shall maintain throughout the Performance Period and for so long as may be necessary during the Wind-Up, a demand deposit account, interest bearing if possible (the "Operating Account"), for the benefit of Purchaser, in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

(B) Maintenance of Sufficient Funds.

Contractor shall cause Purchaser to maintain sufficient funds in the Operating Account to meet the cash needs of Purchaser for the payment of Direct Costs and Seller Indirect Costs.

Section 2. Working Capital.

If Purchaser determines on any Business Day during the Performance Period or Wind-Up that there is a shortfall in the amount of funds required to meet Purchaser's immediate cash needs for the payment of Direct Costs and Seller Indirect Costs, Contractor shall advance funds to the Operating Account to the extent necessary to fund such shortfall.

Section 3. Funds in the Operating Account; Treatment of Interest.

The funds in the Operating Account, and all interest earned thereon, shall be funds of Purchaser and no funds other than Purchaser funds shall be deposited into such account.

Section 4. Working Capital Advances.

Amounts transferred by Contractor to Purchaser to fund the payment of Direct Costs and Seller Indirect Costs are "Working Capital Advances" (the un-repaid balance being the "Working Capital Advance Balance"). Working Capital Advances are repayable to Contractor by Purchaser, but without interest thereon, as funds become available to Purchaser and as Contractor shall direct. Repayments of Working Capital Advances are not Direct Costs, and the Working Capital Advance Balance is not a Purchaser Liability.

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Section 5. Limited Right to Borrow Funds.

Other than Working Capital Advances obtained from Contractor, Purchaser shall not borrow funds for any other purpose or from any party other than Contractor, and Purchaser shall not pledge or grant any security interest in the Property for any purpose whatsoever. Notwithstanding the foregoing, Purchaser

shall have the right **(i)** to accept unsecured short-term trade credit only from suppliers or vendors to Purchaser, which trade credit is extended in the ordinary course of such suppliers' or vendors' businesses, and **(ii)** to finance the purchase or lease of equipment and to grant a corresponding security interest therein.

Section 6. Deposits to Operating Account.

(A) Receipts.

Purchaser shall deposit all receipts of funds into the Operating Account or Sales Deposit Account reasonably promptly as determined with respect to prevailing commercial standards at the time.

(B) Working Capital Advances.

No later than the close of business on the next Business Day following the Day of receipt of a Working Capital Advance, Purchaser shall deposit all such funds into the Operating Account.

(C) Contractor's Responsibility for Funds.

Contractor shall act as a fiduciary to Purchaser with respect to all funds that Purchaser receives, holds and/or disburses.

Section 7. Disbursements from Operating Account.

(A) Costs Payable from Operating Account.

Purchaser shall timely pay from the Operating Account or a Transfer Account, and in accordance with the requirements of this Article 13, all amounts payable for Direct Costs and Seller Indirect Costs, which shall be paid in full when goods and services are provided or, in the case of suppliers extending trade credit pursuant to the provisions of Section 5, when invoiced.

(B) Limitation on Disbursements.

Purchaser shall make no disbursements from the Operating Account except for **(i)** payment of Distribution Payments and other adjustments pursuant to the provisions of Article 16, **(ii)** payment of Direct Costs and Seller Indirect Costs pursuant to the provisions of Article 9 and this Article 13, **(iii)** repayment of Working Capital Advances pursuant to the provisions of this Article 13, **(iv)** Purchase Transfers pursuant to the provisions of Article 14, and **(v)** transfer of funds to a Transfer Account pursuant to the provisions of Article 9 and this Article 13. Except as specifically provided in this contract, no other expense shall be paid, money lent or reimbursement made by Purchaser to any party.

(C) Signatures.

Any payment, including a transfer, from the Operating Account shall require the signature of an employee of Purchaser who is a Key Person. Any payment in excess of twenty-five thousand dollars (\$25,000.00) shall require the signatures of two of Purchaser's employees who are Key Persons, one of whom must be Purchaser's Chief Executive Officer.

Section 8. Transfer Accounts.

Purchaser may in the exercise of its sole discretion establish a zero balance bank account to facilitate third party payroll administration (a "Payroll Account"), zero balance purchase card bank accounts ("P-Card Accounts") to facilitate delegation of authority for expenditures and a zero balance sales depository account (a "Sales Deposit Account") to facilitate deposits and payments from earned income (each Payroll Account, P-Card Account, Sales Deposit Account, and the "Reserve Account" that may be established pursuant to the provisions of Section 9 below, being a "Transfer Account"). Each Transfer Account shall be established in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

Section 9. Seller Indirect Cost Deductions and Reserves.

DRMS may elect in the exercise of its sole discretion to direct Purchaser from time to time to deduct from Distribution Payments to DRMS funds to serve as a source of payment for Seller Indirect Costs (each such deduction being a "Seller Indirect Cost Deduction"). As of any particular date, the unexpended cumulative amount of such Seller Indirect Cost Deductions shall be the amount of the "Seller Indirect Cost Reserve."

ARTICLE FOURTEEN. PURCHASE ACCOUNT

Section 1. Purchase Account

(A) Establishment.

Within thirty (30) Days of the date of award Purchaser shall establish, and shall maintain throughout the Performance Period and for so long as may be necessary during the Wind-Up, a demand deposit account, interest bearing if possible (the "Purchase Account") for the benefit of Purchaser, in such federally insured financial institution as Purchaser may select, provided, however, that such institution shall not be an Affiliated Party.

(B) Maintenance of Sufficient Funds.

Section 2. Purchase Advances.

If Purchaser determines on any Business Day during the Performance Period or Wind-Up that Purchaser requires additional funds in the Purchase Account to meet Purchaser's immediate cash needs for the payment of an Invoice, Contractor shall transfer funds to the Purchase Account (each such transfer, a "Purchase Advance") immediately to the extent necessary to fund such shortfall.

Section 3. Funds in the Purchase Account; Treatment of Interest.

The funds in the Purchase Account, and all interest earned thereon, shall be funds of Purchaser. Interest earned thereon shall be applied to defray the amounts of Purchase Advances and Purchase Transfers that would otherwise be required.

Section 4. Treatment of Purchase Advances.

Purchase Advances shall not be treated as Purchaser Liabilities, and shall not be repaid by Purchaser other than through Contractor Distributions. Purchaser shall not pay to Contractor any interest on Purchase Advances.

Section 5. Disbursements from Purchase Account.

Except during the Wind-Up as provided in Article 21, Purchaser shall make no disbursements or transfers from the Purchase Account other than payments to DRMS and to KGP for Invoices.

Section 6. Purchase Transfers.

At each time that a Contractor Distribution Payment is payable in an amount greater than zero after adjustment pursuant to the provisions of Subsections (1) and (2) of Section 4(D) of Article 16, Purchaser shall withhold therefrom and transfer from the Operating Account to the Purchase Account (a "Purchase Transfer") the amount reasonably estimated by Purchaser that, when added to the balance then available in the Purchase Account, will be required during the next succeeding thirty (30) Days for the timely payment of Invoices, provided, however, that the balance payable to Contractor shall not be less than zero. At any time that the Working Capital Advance Balance exceeds zero, Contractor in the exercise of its sole discretion may cause Purchaser to fund a Purchase Transfer in an amount less than or equal to the amount of the Working Capital Advance Balance, and the amount of the Working Capital Advance Balance shall be deemed reduced by the amount of such Purchase Transfer.

**ARTICLE FIFTEEN. FINANCIAL GUARANTEE BOND; RETENTION FUND;
ESTIMATED CONTINGENT LIABILITIES RESERVE**

Section 1. Election of Contractor to Provide Financial Guarantee Bond in Lieu of Retention.

Contractor shall either **(i)** obtain a performance bond or financial guarantee bond (the "Financial Guarantee Bond") issued within thirty (30) Days of the date of award in favor of DRMS and Purchaser on this contract in the amount of one million dollars (\$1,000,000.00), or **(ii)** be subject to the withholding of a portion of Contractor Distributions as provided in Section 3 hereof. The purpose of the Financial Guarantee Bond and the Retention Fund shall be to provide a source of payment to DRMS and/or to Purchaser in an amount reasonably sufficient to satisfy the financial obligations of Contractor. In lieu of a Financial Guarantee Bond, Contractor may post such alternative security, including without limitation a letter of credit, that is approved by the SCO.

Section 2. Financial Guarantee Bond.

(A) Surety and Form of Bond.

The Financial Guarantee Bond shall be issued by such surety and in such form that are acceptable to DRMS in the exercise of its sole discretion.

(B) Issuance and Renewal.

The Financial Guarantee Bond shall be issued and, if applicable, renewed for periods of at least one year, renewable at the sole option of the surety.

(C) Liability and Release of Surety.

The surety shall be liable to DRMS for damages arising out of a Material Breach by Contractor or Purchaser, and the surety's liability on the Financial Guarantee Bond shall terminate with respect to a particular period of time upon approval by DRMS of Purchaser's Annual Report or, if applicable, the Closing Report, pertaining to such period of time, provided, however, that such approval may be conditioned by DRMS upon the final resolution of claims that may arise or have arisen out of occurrences specified by DRMS in its notice of such conditional approval, which occurrences fall in whole or in part within such period of time, and the surety shall remain liable until such claims are finally resolved.

Section 3. Retention Fund.

(A) Establishment of Retention; Retention Rate; Retention Fund; Required Retention Fund Balance.

Except as otherwise provided herein, beginning with the first calendar month (the “Retention Trigger Month”) following the later of **(i)** the calendar month with respect to which the cumulative amount of Contractor Distribution Payments exceeds the cumulative amount of Purchase Advances or **(ii)** if

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applicable, the calendar month in which the Financial Guarantee Bond lapses or is terminated, ten percent (10%) (the “Retention Rate”) of all Contractor Distribution Payments otherwise payable to Contractor in an amount greater than zero after adjustment pursuant to the provisions of Subsections (1), (2) and (3) of Section 4(D) of Article 16 shall be paid to DRMS (“Retention Payments”) to hold in a fund.

(1) At the time of award and throughout the Performance Period and Wind-Up except as otherwise provided herein, the target balance for the Retention Fund (the “Required Retention Fund Balance”) shall be two hundred and fifty thousand dollars (\$250,000.00).

(2) Except as otherwise provided herein, while a Financial Guarantee Bond that complies with the provisions of Sections 1 and 2 above of this Article 15 remains in effect, the Retention Rate shall be zero and the Required Retention Fund Balance shall be zero.

(3) Retention Payments shall continue from the Retention Trigger Month until the balance in the Retention Fund equals the amount of the Required Retention Fund Balance, provided, however, that the amount of the Retention Payment shall be zero with respect to any month for which the Contractor Net Worth Allocation Balance exceeds zero.

(B) Insolvency of Contractor.

If Contractor voluntarily places itself or is involuntarily placed in proceedings under Title 11 of the United States Code (or corresponding provisions of future law) or any other federal or state insolvency law, Contractor shall so notify DRMS and Purchaser within two (2) Days of the commencement of such proceedings.

(C) Increased Retention.

If DRMS at any time after the Retention Trigger Month determines that the amount in the Retention Fund will likely not be sufficient to satisfy its purpose, it may submit the issues of the sufficiency of the amount of the Retention Fund or of the Retention Rate to the Dispute Resolution Panel in accordance with the provisions of Article 20 below. The Dispute Resolution Panel shall determine whether the total amount of the Retention Fund and/or the Retention Rate shall be increased in order to effectuate the purpose of Retention.

(D) Release of Retention Fund.

The balance in the Retention Fund shall be released to Contractor without interest thereon as provided in Article 21.

Section 4. Estimated Contingent Liabilities Reserve.

Effective as of the date of award, Purchaser shall establish an estimated contingent liabilities reserve account (the “ECLR”) on its books of account. The ECLR shall represent an amount reasonably deemed from time to time by Purchaser to be sufficient to satisfy all of

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Purchaser’s contingent, conditional and/or un-matured claims, liabilities and obligations that have not otherwise been accrued in accordance with GAAP. The ECLR shall be carried on the books of Purchaser as a liability, but shall not be included in the computation of Purchaser Liabilities. Purchaser shall maintain the ECLR throughout the Performance Period and Wind-Up until Contractor reasonably determines that all of the contingent, conditional and/or un-matured claims, liabilities and obligations of Purchaser have been satisfied, it being expressly understood that DRMS may submit to the Dispute Resolution Panel in accordance with the provisions of Article 20 a Dispute as to the appropriate duration or amount of the ECLR. So long as Purchaser maintains the ECLR on its books, it shall include within its Monthly, Quarterly and Annual Reports a written statement (the “ECLR Statement”) of the amount of the ECLR and an itemization specifying the contingent, conditional and un-matured claims and obligations of Purchaser that the ECLR is intended to satisfy.

ARTICLE SIXTEEN. DISTRIBUTIONS

Section 1. Monthly Distribution Statement.

Within fifteen (15) Days after the last Day of each calendar month that is in whole or in part within the Performance Period and Wind-Up, Purchaser shall prepare and submit to DRMS, KGP and Contractor the “Monthly Distribution Statement” with respect to such month in the form specified at Attachment VI.16.1. Purchaser shall perform the following calculations in preparing the Monthly Distribution Statement. Except as otherwise provided herein, all amounts shall be determined as of the close of business on the last Day of the subject month.

Section 2. Calculate Cash Available for Distribution and Operating Net Worth.

(A) Calculate Cash Available for Distribution.

Purchaser shall calculate the amount of Purchaser's "Cash Available for Distribution," equal to **(x)** the sum of the cash balances in the Operating Account and the Transfer Accounts (Purchaser's "Operating Cash Balance") minus **(y)** the sum of **(i)** the Working Capital Advance Balance, **(ii)** the amount of Purchaser Liabilities, **(iii)** Purchaser's reasonable estimate of the amount of cash required for the payment of Direct Costs for the next succeeding calendar month, **(iv)** Purchaser's reasonable estimate of the amount of cash required for the payment of Seller Indirect Costs during the next succeeding calendar month, and **(v)** the Estimated Contingent Liability Reserve (ECLR).

(B) Calculate Operating Net Worth.

(1) Cash Available for Distribution is Less Than or Equal to Zero.

If Cash Available for Distribution is less than or equal to zero, the amount of Purchaser's "Operating Net Worth" shall equal the amount of Seller Indirect Costs paid during the subject month.

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(2) Cash Available for Distribution is Greater Than Zero. If Cash Available for Distribution is greater than zero, the amount of Purchaser's "Operating Net Worth" shall equal **(x)** the Cash Available for Distribution plus **(y)** the amount of Seller Indirect Costs paid during the subject month.

Section 3. Calculate Net Worth Allocations.

(A) Calculate Contractor Net Worth Allocation.

Purchaser shall calculate the amount of the "Contractor Net Worth Allocation" as Operating Net Worth multiplied by twenty percent (20.00%).

(B) Calculate DRMS Net Worth Allocation.

Purchaser shall calculate the amount of the "DRMS Net Worth Allocation" as Operating Net Worth multiplied by seventy-eight and twenty one-hundredths percent (78.20%).

(C) Calculate KGP Net Worth Allocation.

Purchaser shall calculate the amount of the "KGP Net Worth Allocation" as Operating Net Worth multiplied by one and eighty one-hundredths percent (1.80%).

Section 4. Distribution Payments.

Purchaser shall make payments of Distributions (each, a "Distribution Payment") to DRMS, KGP and Contractor contemporaneously in accordance with the following provisions within fifteen (15) Days after the last Day of each calendar month that is in whole or in part within the Performance Period and Wind-Up:

(A) As of the inception of the contract, the "Net Worth Allocation Balance" for DRMS, Contractor and KGP, respectively, shall be deemed equal to zero.

(B) DRMS Net Worth Allocation is Greater Than or Equal to the Sum of Seller Indirect Costs and DRMS Net Worth Allocation Balance.

If the DRMS Net Worth Allocation is greater than or equal to the sum of Seller Indirect Costs paid during the subject month and DRMS Net Worth Allocation Balance for the preceding calendar month, Purchaser shall calculate the amounts of the Distribution Payments and the Net Worth Allocation Balances for the subject month as follows.

(1) Calculate Contractor Distribution Payment and Contractor Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the "Contractor Distribution Payment" as the amount of **(i)** the Contractor Net Worth Allocation, plus **(ii)** the preceding calendar month's Contractor Net Worth Allocation Balance.

(b) The Contractor Net Worth Allocation Balance for the subject month shall equal zero.

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(2) Calculate DRMS Distribution Payment and DRMS Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the "DRMS Distribution Payment" as the amount of **(i)** the DRMS Net Worth Allocation, minus **(ii)** the preceding calendar month's DRMS Net Worth Allocation Balance, minus **(iii)** Seller Indirect Costs paid during the subject month.

(b) The DRMS Net Worth Allocation Balance for the subject month shall equal zero.

(3) Calculate KGP Distribution Payment and KGP Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount, of the “KGP Distribution Payment” as the amount of (i) the KGP Net Worth Allocation, plus (ii) the preceding calendar month’s KGP Net Worth Allocation Balance.

(b) The KGP Net Worth Allocation Balance for the subject month shall equal zero.

(C) DRMS Net Worth Allocation is Less Than the Sum of Seller Indirect Costs and DRMS Net Worth Allocation Balance.

If the DRMS Net Worth Allocation is less than the sum of Seller Indirect Costs paid during the subject month and DRMS Net Worth Allocation Balance for the preceding calendar month, Purchaser shall calculate the amounts of Distribution Payments and Net Worth Allocation Balances as follows.

(1) Calculate Contractor Distribution Payment and Contractor Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount of the “Contractor Distribution Payment” as the amount of (i) ninety-one and seventy-four one-hundredths percent (91.74%), multiplied by (ii) Cash Available for Distribution, provided, however, that the Contractor Distribution Payment shall not be less than zero.

(b) Purchaser shall calculate the amount of the “Contractor Net Worth Allocation Balance” as the amount of (i) the Contractor Net Worth Allocation, plus (ii) the Contractor Net Worth Allocation Balance for the preceding calendar month, minus (iii) the Contractor Distribution Payment.

(2) Calculate DRMS Distribution Payment and DRMS Net Worth Allocation Balance.

(a) The amount of the “DRMS Distribution Payment” shall equal zero.

(b) Purchaser shall calculate the amount of the “DRMS Net Worth Allocation Balance” as the amount of (i) the DRMS Net

Worth Allocation Balance for the preceding calendar month, minus (ii) the DRMS Net Worth Allocation, plus (iii) Seller Indirect Costs paid during the subject month.

(3) Calculate KGP Distribution Payment and KGP Net Worth Allocation Balance.

(a) Purchaser shall calculate the amount of the “KGP Distribution Payment” as eight and twenty-six one-hundredths percent (8.26%) of the Cash Available for Distribution, provided, however, that the KGP Distribution Payment shall not be less than zero.

(b) Purchaser shall calculate the amount of the “KGP Net Worth Allocation Balance” as the amount of (i) the KGP Net Worth Allocation, plus (ii) the KGP Net Worth Allocation Balance for the preceding calendar month, minus (iii) the KGP Distribution Payment.

(D) Adjustments to Distributions.

(1) Purchaser shall deduct from the DRMS Distribution Payment and add to the Contractor Distribution Payment the amount of any credit for overpayments of Invoices owed by DRMS as required by the provisions hereof, provided, however, that the balance payable to DRMS shall not be less than zero.

(2) Any amount that Contractor owes to Purchaser as the result of an undisputed Audit Adjustment, a Decision of the Dispute Resolution Panel, a final judgment or other undisputed obligation in an amount certain, shall be deducted from the Contractor Distribution Payment, provided, however, that the balance payable to Contractor shall not be less than zero.

(3) Purchaser shall deduct from the Contractor Distribution Payment the amount of any Purchase Transfer required by the provisions of Article 14.

(4) Purchaser shall deduct from the Contractor Distribution Payment and add to the DRMS Distribution Payment the amount, if any, of Retention required by the provisions of Article 15.

ARTICLE SEVENTEEN. COMPLIANCE AND MONITORING

Section I. Purpose and Content of Compliance Reviews and Further Reviews.

(A) Compliance Reviews and Further Reviews.

DRMS shall have the right to conduct “Compliance Reviews” of Purchaser in accordance with, and as limited by, the provisions of this Article 17. DRMS may actually conduct the Compliance Reviews, or use other Government agencies

or private firms, as the SCO deems appropriate. DRMS shall also have the right to conduct “Further Reviews” as provided herein. The purpose of such Compliance Reviews and Further Reviews is to determine, after the fact, the extent of Purchaser’s compliance with the terms and provisions of the contract, applicable laws and regulations, and applicable Host Installation requirements, including without limitation compliance with applicable environmental, security and safety laws, regulations and requirements. Such Compliance Reviews and Further Reviews are not intended to provide a mechanism for DRMS participation or involvement in ongoing decision-making regarding the affairs of Purchaser. No-notice Trade Security Control reviews and inspections conducted by DLA Trade Security Control personnel are separate and distinct from the Compliance Reviews described in this Section.

(B) Methods.

Compliance Reviews may include, without limitation: **(i)** examination of the Records, and **(ii)** personal interviews of persons who may have knowledge of facts regarding Purchaser’s compliance with the provisions of this contract, including employees of Purchaser or of any supplier or re-sale buyer.

Section 2. Procedures for Compliance Reviews.

(A) Procedures and Notice.

A Compliance Review shall be conducted at any time during normal business hours and on any Business Day upon reasonable notice. It is expressly agreed that a period of at least ten (10) Business Days shall constitute reasonable notice before a Compliance Review. Purchaser shall permit inspection of any physical location used by Purchaser, including, without limitation, the inventory (including the Records relating thereto), examination of the Records, making copies and abstracts therefrom, and discussions of the affairs, finances and accounts of Purchaser with any employee, subcontracting attorney or certified public accountant of Purchaser. DRMS shall use its best efforts to assure that Compliance Reviews are conducted in a manner that does not unduly burden or unreasonably impinge upon the efficient operation of the affairs of Purchaser.

(B) Scope.

The scope of Compliance Reviews shall be as necessary to confirm Purchaser’s and Contractor’s compliance with the provisions of the contract.

Section 3. Further Reviews.

If a Compliance Review determines that there is a reasonable basis to believe that a default or breach of this contract has occurred, DRMS, upon written notice to Contractor, may conduct any such further investigation that it deems appropriate under the circumstances, using such outside consultants, including attorneys, as it deems necessary or advisable (“Further Review”). Purchaser shall permit such persons as are designated by DRMS to visit and inspect

any physical location used by Purchaser, including, without limitation, the inventory (including the Records relating thereto), and to examine the Records, make copies and abstracts therefrom, and discuss the affairs, finances and accounts of Purchaser with any employee, attorney or certified public accountant of Purchaser. Notwithstanding the foregoing, if Contractor gives notice to DRMS stating that a Further Review is not justified, DRMS shall delay the commencement of any such Further Review for a period of fourteen (14) Days after the delivery of its notice thereof to Purchaser to permit Contractor to seek a determination of the appropriateness of the Further Review pursuant to the provisions of Article 20.

Section 4. Compliance Notification.

After completing the Compliance Review and/or Further Review, DRMS shall notify Contractor in writing of any breach or default identified during the Compliance Review and/or Further Review.

Section 5. Costs of Oversight.

Except as provided in Article 20, DRMS shall pay all fees, costs and expenses incurred in connection with its Compliance Reviews and Further Reviews.

ARTICLE EIGHTEEN. AUDIT ADJUSTMENTS

Section 1. Notice of Audit Adjustment.

If any party determines that the Records reflect any inaccuracies requiring entry of an adjustment thereto (an “Audit Adjustment”), including, without limitation, the disbursement of any amount from the Operating Account or a Transfer Account that is inconsistent with any provision of the contract (“Ineligible Disbursement”) or the disposition of an item of Property that is inconsistent with any provision of the contract (“Ineligible Disposition”), such party shall give written notice thereof to the other party or parties (a “Notice of Audit Adjustment”).

Section 2. Procedures for Adjudication of Audit Adjustments.

If either Contractor or DRMS disputes an asserted Audit Adjustment, it may submit such dispute for resolution pursuant to the provisions of Article 20. Upon resolution of such dispute or, if no party submits a dispute for resolution pursuant to the provisions of Article 20 within sixty (60) Days of the Notice of Audit Adjustment, the Audit Adjustment shall be deemed confirmed as asserted.

Section 3. Remedies for Audit Adjustments.

Upon confirmation of an Audit Adjustment, **(i)** Purchaser will pay to the party in question, or the party will pay to Purchaser, as the case may be, the amount required to restore the parties to their respective positions status quo ante, and **(ii)** Purchaser will correct the Records in accordance with the Audit Adjustment as confirmed. If, as a result of the Audit Adjustment,

Contractor is to pay Purchaser or Purchaser is to pay DRMS, each such payment shall include interest at the treasury rate as computed and adjusted in accordance with SBR condition 11.

ARTICLE NINETEEN. MATERIAL BREACH

Section 1. Notice of Material Breach.

In the event of a material failure to perform the provisions of the contract by Purchaser, Contractor or DRMS (“Material Breach”), the party asserting such Material Breach (the “Non-Breaching Party”) shall serve notice thereof upon the party that committed or is alleged in the notice to have committed such Material Breach (the “Breaching Party”).

Section 2. Response to Notice.

(A) Cure.

Except as otherwise provided herein, the Breaching Party may cure the Material Breach within thirty (30) Days of such notice (the “Cure Period”) or within such longer Cure Period as the notice may provide unless, within the Cure Period, the Non-Breaching Party withdraws the notice in writing or extends the Cure Period in writing.

(B) Submission of Dispute to Dispute Resolution Panel.

Except as otherwise provided herein, the Breaching Party may dispute the asserted Material Breach by presenting such Dispute to the Dispute Resolution Panel as provided in Article 20.

Section 3. Termination.

Except as otherwise provided herein, referrals of Property by DRMS for sale to Purchaser hereunder shall terminate (a “Termination”) upon notice thereof by the Non-Breaching Party to the Breaching Party served upon or after expiration of the Cure Period if the Breaching Party fails to cure within the Cure Period or, if the Non-Breaching Party submits the asserted Material Breach to the Dispute Resolution Panel as provided in Article 20 and the Dispute Resolution Panel issues a Decision confirming the asserted Material Breach, Termination shall be effective upon notice thereof by the Non-Breaching Party to the Breaching Party served upon or after the date of such Decision. Except as otherwise provided herein, Contractor, Purchaser and DRMS shall continue to perform their respective duties under the contract during the Cure Period and while a Dispute is pending before the Dispute Resolution Panel.

Section 4. Intentional Breach.

An asserted Material Breach comprised of an intentional breach of the Duty of Loyalty or the Duty of Care prescribed in Article 7 (an “Intentional Breach”) may not be cured unless DRMS, in its sole discretion, specifies a Cure Period in the notice thereof. Termination shall be effective upon the later of the date of service of such notice or the expiration of the Cure Period,

if any, unless Contractor or Purchaser presents a Dispute regarding such asserted Intentional Breach to the Dispute Resolution Panel as provided in Article 20 within five (5) Days of such notice or within the Cure Period specified in such notice, if any, whichever is longer. If such Dispute is presented to the Dispute Resolution Panel and the Dispute Resolution Panel issues a Decision confirming such Intentional Breach, Termination shall be effective upon the date of such Decision.

Section 5. DRMS Remedies for Material Breach by Contractor or Purchaser.

If the Breaching Party is Purchaser or Contractor, DRMS may take any one, any combination or all of the following actions to satisfy its claims for any non-payments or other damages:

- (i)** Apply the proceeds of the sale of Purchaser’s property;
- (ii)** Apply the Payment Deposit and/or Retention;
- (iii)** Present a claim for indemnity against Contractor as provided in Section 6 below;
- (iv)** Present a claim upon the Fidelity or Blanket Bond or any other applicable insurance or surety policy;
- (v)** Seek appointment of a receiver or trustee for Purchaser;
- (vi)** Seek monetary damages, restitution or any other legal or equitable remedy to which it is entitled;

(vii) Assert any other right, claim, or remedy available pursuant to the Contract Disputes Act.

(viii) Termination.

Section 6. Indemnification of DRMS by Contractor and Purchaser.

Contractor guarantees that Purchaser will comply fully with the provisions of this contract. If the Breaching Party is Purchaser or Contractor, both Purchaser and Contractor shall indemnify and hold DRMS harmless for all damages arising therefrom.

Section 7. Indemnification of Contractor by DRMS.

If the Breaching Party is DRMS, DRMS shall indemnify and hold Contractor harmless for its damages.

ARTICLE TWENTY. DISPUTE RESOLUTION

The procedure provided in this Article is intended to be elective and not to supplant any Contract Disputes Act rights of any party. DRMS's Sale by Reference, Part 2, Condition 32, continues to apply.

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Section 1. Selection of Dispute Resolution Panel.

The Dispute Resolution Panel shall consist of three (3) persons chosen as follows:

(A) Appointment of Arbitrators.

Within thirty (30) Days following service of notice of a "Dispute" (as such term is defined in Section 4(A) below of this Article 20), DRMS and Contractor shall each notify the other of its designee to serve as its representative (each, an "Appointed Arbitrator") on the Dispute Resolution Panel. Within thirty (30) Days thereafter, the two Appointed Arbitrators shall agree to designate a third person (the "Neutral Arbitrator") to serve on the Dispute Resolution Panel and each party shall provide notice to the other confirming such designation. If the two Appointed Arbitrators cannot agree on the Neutral Arbitrator, either party may submit to the Washington, D.C. office of the American Arbitration Association (the "AAA") a written joint request for the selection of the Neutral Arbitrator pursuant to AAA's Rules for Commercial Arbitration ("AAA Rules").

(B) Service of Arbitrators.

DRMS and Contractor each may replace its respective Appointed Arbitrator at any time except during the pendency of a proceeding before the Dispute Resolution Panel (unless such replacement is necessitated by the death or disability of the Appointed Arbitrator or, in the case of DRMS's Appointed Arbitrator, by reason of job transfer, reassignment or similar circumstance, or in the case of Contractor's Appointed Arbitrator, by reason of termination of employment or resignation by the Appointed Arbitrator). The Neutral Arbitrator shall serve on the Dispute Resolution Panel for a one year term unless reappointed or unless replaced by the mutual consent of DRMS and Contractor. At the end of each one-year term, the Appointed Arbitrators may agree either to reappoint the Neutral Arbitrator for another one-year term, or select a replacement as Neutral Arbitrator as provided in Section 1(A) above. If at any time the Neutral Arbitrator becomes unable or unwilling to continue service on the Dispute Resolution Panel, the parties shall, within thirty (30) Days of receipt of notice thereof from the Neutral Arbitrator (or if the Neutral Arbitrator fails to give such notice, from the Appointed Arbitrators), designate a replacement as provided in Section 1(A) above.

(C) Expenses.

Contractor and DRMS shall each bear the costs of its respective Appointed Arbitrator and shall equally share the costs of the Neutral Arbitrator. Neither such costs nor any other cost, fee or expense of any character whatsoever that is incurred to support, present or document a party's position in a proceeding before a court, Board, the Dispute Resolution Panel or any other tribunal shall be a Direct Cost.

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Section 2. Location and Governing Rules.

The Dispute Resolution Panel shall conduct proceedings in Battle Creek, Michigan pursuant to the AAA Rules.

Section 3. Jurisdiction of the Dispute Resolution Panel.

(A) Matters Committed to the Dispute Resolution Panel.

Except as set forth in Section 3(B) below, any Dispute may be submitted to the Dispute Resolution Panel for voluntary, binding arbitration.

(B) Availability of Judicial Relief.

Either DRMS or Contractor may bypass the Dispute Resolution Panel and seek relief in connection with a Dispute including, without limitation, emergency relief, monetary damages, and/or the Wind-Up of Purchaser, from a court of competent jurisdiction. It is

expressly provided, however, that the party seeking such relief shall provide written notice to the opposing party specifying the facts giving rise to the Dispute, and, except in emergency circumstances or unless otherwise provided herein, the opposing party shall have thirty (30) Days following receipt of such notice in which to cure the facts underlying the Dispute before the party serving such notice may seek such judicial relief.

Section 4. Submission of Disputes to the Dispute Resolution Panel.

(A) Dispute.

Any dispute, controversy or claim arising under or relating to this contract between the parties, including, but not limited to, a dispute relating to the interpretation of any provision of this contract, a dispute relating to the scope or conduct of Purchaser's or Contractor's duties under this contract, a dispute regarding DRMS's exercise of its oversight powers under Article 17, and a dispute relating to any Audit Adjustment, shall constitute a "Dispute".

(B) Process.

(1) **Notice.** Except as to matters explicitly committed to the "discretion" or "option" of a party, as to which such party's exercise of its discretion or option shall not be subject to the following dispute resolution process, if a Dispute arises between the parties, either may serve notice upon the other that it wishes to present the Dispute to the Dispute Resolution Panel for resolution, provided, however, that no such notice shall be served beyond completion of the Wind-Up.

(2) **Response.** Within fifteen (15) Days after service of a notice, the party upon which it is served shall respond in writing ("Response"). The Response shall state whether such responding party agrees to binding arbitration as provided in this Article 20 and, if such party so agrees, the Response shall describe the responding party's position with respect to such matter and shall designate the attorney(s) or other representative

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("Designated Representative") that such party has selected to represent it in connection with such matter. A Response that does not expressly state that the responding party does not agree to binding arbitration shall be deemed to constitute such party's agreement to participate in binding arbitration as provided in this Article 20.

(3) **Negotiation.** Within fifteen (15) Days after service of the Response, the Designated Representatives shall meet and attempt to resolve the matter. Within the same fifteen (15) Day period, the Designated Representatives also shall deliver copies of their respective notices and Responses to each member of the Dispute Resolution Panel. If the Designated Representatives fail to resolve the dispute within ten (10) Business Days after service of the Response, each party shall within five (5) Business Days so notify the Dispute Resolution Panel and deliver to the Dispute Resolution Panel such written information, arguments, documentary evidence, and other written documentation, as it may deem appropriate.

(4) **Request for Immediate Action by the Dispute Resolution Panel.** If a party believes that a situation has arisen that requires immediate action by the Dispute Resolution Panel, any party may serve a notice upon each member of the Dispute Resolution Panel and upon the other party to request such immediate action.

Section 5. Decision.

The Dispute Resolution Panel shall issue a written decision (the "Decision") endorsed by a majority of the Dispute Resolution Panel as promptly as possible, but in no event later than forty-five (45) Days after the close of the arbitration hearing for the matter. Within thirty (30) Days of the issuance of a Decision, either party may bring suit in a court of competent jurisdiction under the federal Contract Disputes Act for enforcement of the Decision. It is not the intent of the parties that such court will engage in de novo review of the underlying matter. Absent such suit, upon the expiration of such thirty (30) Day period the Decision shall be binding on both parties and enforceable by a court of competent jurisdiction. Immediately upon expiration of such thirty (30) Day period, Purchaser shall correct the Records as necessary to comply with the Decision, the respective parties shall pay to the other such sums as ordered by the Decision, and the parties shall cooperate to take all such actions that in other respects may be necessary to comply with the Decision.

Section 6. Remedies Available to Dispute Resolution Panel.

(A) Remedies in the Case of Disputes.

Upon the request of either party, the Dispute Resolution Panel may issue a Decision declaring the rights and obligations of the parties with respect to any

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Dispute submitted to the Dispute Resolution Panel, or a Decision ordering either party to take any action that the Dispute Resolution Panel deems appropriate within the scope of the contract, including without limitation payment of damages, or to refrain from taking certain actions specified by the Dispute Resolution Panel. In addition, and without limiting the foregoing, the Dispute Resolution Panel also may issue an order directing any party to comply with the requirements of the contract and may specify the actions necessary to constitute compliance.

(B) Remedies for Ineligible Disbursements.

If the Dispute Resolution Panel confirms a disputed Audit Adjustment arising out of an Ineligible Disbursement, the Dispute Resolution Panel may order Contractor to pay Purchaser from Contractor's own funds the amount of any such Ineligible Disbursement.

(C) Award of Costs.

In addition to the remedies described in Subsections (A) and (B) above, the Dispute Resolution Panel shall award the reasonable fees, costs and expenses ("Awarded Costs") actually incurred in the prosecution or defense of a Dispute to the prevailing party. Awarded Costs shall be calculated from the commencement of preparation of the notice as defined in Section 4(B) through the conclusion of proceedings before the Dispute Resolution Panel. Awarded Costs shall not constitute Direct Costs and shall be borne by the non-prevailing party.

Section 7. Effective Date.

Disputes that are resolved or confirmed by a Decision shall be deemed confirmed as of the date that is thirty (30) Days after the date of issuance of the relevant Decision.

Section 8. Agreement to Use Alternative Dispute Resolution.

The parties agree to use their best efforts to resolve any disputes that may arise without litigation. If unassisted negotiations are unsuccessful, the parties will use alternative dispute resolution ("ADR") techniques in an attempt to resolve the dispute. Litigation will only be considered as a last resort when ADR is unsuccessful or has been documented by the party rejecting ADR to be inappropriate for resolving the dispute. If the ADR is not successful, the parties retain their existing rights.

ARTICLE TWENTY-ONE. WIND-UP OF PURCHASER

Section 1. Wind-Up Commencement Date.

Beginning with the date (the "Wind-Up Commencement Date") that is the earlier of (1) the end of the Performance Period or (2) the effective date of Termination by reason of DRMS or

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Contractor exercising the early cancellation option as provided in Article 2 or by reason of a Material Breach, the contract shall be wound up as provided herein.¹⁸

Section 2. Cessation of Property Referrals.

There shall be no further referrals of Property by DRMS for sale to Purchaser from the Wind-Up Commencement Date forward. Submission of Monthly, Quarterly and Annual Reports shall continue as before the Wind-Up Commencement Date until the Wind-Up is completed. DRMS will no longer make its facilities available 30 days following termination. Purchaser will have to relocate any remaining property. Any costs incurred to dispose of property will be charged as Purchaser Direct Costs.

Section 3. Conduct of Wind-Up.

From the Wind-Up Commencement Date forward, Purchaser and Contractor shall perform their remaining obligations hereunder in accordance with the provisions of this contract. If Purchaser and Contractor are unable or unwilling to do so, or if DRMS reasonably concludes that the value of its remaining interest in Purchaser's Net Proceeds is at risk by reason of actual or threatened failure to comply with provisions of the contract, DRMS may seek administrative or judicial relief to preserve the value of such remaining interest in Purchaser's Net Proceeds.

Section 4. Submission and Approval of Closing Report.

(A) Preparation by Contractor.

Within one hundred twenty (120) Days of Contractor's determination that (i) the sale or other disposition of all of Property and all other assets owned by Purchaser as of the Wind-Up Commencement Date (the "Remaining Assets," including such Property that, as of the Wind-Up Commencement Date, has been referred for sale to Purchaser but as to which the Purchaser has not taken Delivery) has been completed, (ii) all Purchaser Liabilities have been paid in full, (iii) the ECLR has properly been removed from Purchaser's books of account as provided in Article 15, and (iv) all amounts owed by Purchaser have been paid in full, Contractor shall prepare and submit to DRMS and to KGP the Closing Report.

¹⁸ DRMS and or DRMS contractors may need Government scrap facilities to conduct continued scrap processing operations during the Wind-Up period. Accordingly, Purchaser should recognize that DRMS might require the use of space and equipment previously used by Purchaser. Purchaser shall vacate and turn over equipment during the Wind-Up period reasonably soon after the SCO so requests.

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(B) Preparation by DRMS.

If Contractor is unable or unwilling to prepare the Closing Report, DRMS may take such steps as are reasonably necessary to enable the calculation and payment of final amounts payable to DRMS, KGP and Contractor as determined by application of the provisions of Article 16 and of Section 5(B) below of this Article 21.

Section 5. Final Distributions; Refund of Remaining Balance of Payment Deposit and Remaining Balance of Retention Fund.

(A) Final Distributions; Dissolution of Purchaser.

Upon DRMS approval of the Closing Report, Contractor shall take, or as may be appropriate, Contractor shall cause Purchaser to take, each of the following actions:

- (1) Final Distributions.** Distribute all of Purchaser's remaining cash in accordance with the provisions of Article 16, and refund to Contractor the remaining cash in the Purchase Account, if any.
- (2) Close Operating Account and Purchase Account.** Close Purchaser's Operating Account, Transfer Accounts and Purchase Account.
- (3) Final Tax Returns.** File closing tax returns and any other documents required by applicable law.
- (4) Dissolution of Purchaser.** File such documents as are necessary to conclude Purchaser's legal existence.
- (5) Documentation and Payment Provided to DRMS.** Provide to DRMS and to KGP copies of all documents evidencing compliance with the provisions of this Article 21 and payment of any Distribution Payments owed to DRMS under Article 16.

(B) Refund of Payment Deposit and Retention Fund.

Upon receipt by DRMS and KGP of all amounts payable thereto and all documentation to be provided pursuant to the provisions hereof, DRMS shall pay to Contractor the remaining balances, if any, of the Payment Deposit and Retention Fund without interest.

(C) Early Refund of Retention Fund.

Contractor may obtain payment from DRMS of the balance in the Retention Fund without interest at any time before conclusion of the Wind-Up by providing a Financial Guarantee Bond in the amount of one million dollars (\$1,000,000.00) that is issued for the remaining Performance Period through the conclusion of the Wind-Up, or in such other amount and on such terms that are otherwise acceptable to DRMS in the exercise of its sole discretion.

ARTICLE TWENTY-TWO. MISCELLANEOUS PROVISIONS

Section 1. Binding Effect.

Subject to the restrictions on transfers and encumbrances set forth herein, this contract shall inure to the benefit of and be binding upon DRMS, Contractor and Purchaser, and their respective legal representatives, successors and assigns. Whenever this contract refers to any party, such reference shall be deemed to include a reference to the legal representatives, successors and assigns of such party.

Section 2. Notices.

All notices, demands, requests, consents, approvals, declarations, reports and other communications required hereunder shall be in writing except as otherwise provided herein and addressed as follows, and the same shall be given and shall be deemed to have been served and given if **(i)** delivered in person, **(ii)** delivered by registered or certified U.S. mail, return receipt requested, postage prepaid, **(iii)** deposited into the custody of Federal Express Corporation or other reputable overnight carrier ("Overnight Carrier") for next Business Day delivery, **(iv)** telecopied, or **(iv)** electronically transmitted:

If to DRMS:

Greg Ortiz
Sales Contracting Officer
DRMS - BP
74 Washington Avenue N
Battle Creek, MI 49017-3092
Telecopy No. (269) 961-4162

With a copy of each such material communication to:

Kormendi \ Gardner Partners
1025 Connecticut Avenue, N.W.
Suite 308
Washington, D.C. 20036

Attention: Cyrus J. Gardner and Roger C. Kormendi
Telecopy No. (202)331-1151

If to Contractor or Purchaser to:

[CONTRACTOR CONTACT INFORMATION FROM CONTRACTOR'S ITEM BID AND AWARD PAGE; MAY BE AMENDED BY CONTRACTOR AFTER AWARD AS PROVIDED BELOW]

With a copy of each such material communication to:

Kormendi \ Gardner Partners
1025 Connecticut Avenue, N.W.
Suite 308
Washington, D.C. 20036

Attention: Cyrus J. Gardner and Roger C. Kormendi
Telecopy No. (202)331-1151

or at such other address as may be substituted by giving not less than five (5) Business Days advance written notice of such change of address in accordance with the provisions hereof. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Except as otherwise provided in this contract, every notice, demand, request, consent, approval, declaration or other communication provided pursuant to the provisions hereof shall be acknowledged by the recipient by an original writing or photocopy thereof, by telecopy or by electronic transmission, with date of receipt indicated thereon, and shall be deemed to have been duly served, delivered and received on the earlier of (x) the date of such acknowledgement of receipt by an original writing or photocopy thereof, by telecopy or by electronic transmission, regardless of the original mode of delivery, or (y) the date on which telecopied and confirmed by telecopy answerback, or on the second Business Day after being deposited with an Overnight Carrier, or five (5) Business Days after being deposited in the U.S. mail, provided, however, that Invoices, Pickup Notices, and Purchaser's Reports delivered electronically need not be acknowledged and shall be deemed received, delivered and served upon such transmission. Failure or delay in delivering any notice, demand, request, consent, approval, declaration or other communication to a party or to any persons designated above to receive a copy thereof shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

Section 3. Severability; Consolidation with CV

(A) If any provision of this contract or the application thereof to any Person or circumstance shall be invalid or unenforceable to any extent, the remainder of this contract and the application of such provisions to other Persons or circumstances

shall not be affected thereby, and the intent of this contract shall be enforced to the greatest extent permitted by law, provided, however, that, if any of the provisions of Article 5, Section 1 ("Payment Deposit") or the application thereof to any Person or circumstance shall be determined in a final judgment rendered by a court or other tribunal of competent jurisdiction to be invalid or unenforceable to any extent, DRMS may in the exercise of its sole discretion cause Termination by notice served within thirty (30) days of the date upon which such judgment becomes final, such Termination to be effective five (5) Days after the date of service of such notice.

(B) In the event that a CV transaction or operations are consolidated in whole or in part with this SV sale contract, conflicting provisions of the respective contracts shall be resolved as the parties shall reasonably agree.

Section 4. Headings.

The headings appearing in this contract are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of any article or section of this contract.

Section 5. Survival.

The rights and obligations of the parties under this contract shall survive for a period of six (6) years after the completion of the Wind-Up.

Section 6. Waiver.

No consent or waiver, express or implied, by any party to or of any breach or default by any other party in the performance by such other party of its obligations under this contract shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligations of such other party under this contract. Failure on the part of any party to complain of any act or failure to act by any of the other parties or to declare any of the other parties in default, regardless of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder.

Section 7. Force Majeure.

The parties shall be excused for the period of any delay in the performance of any obligations under this contract when prevented from performing such obligations by cause or causes beyond their reasonable control, including, without limitation, civil commotion, war, invasion, rebellion, hostilities, military or usurped power, sabotage, pestilence, riots, fire or other casualty or acts of God.

Section 8. Use of DRMS Name; Public Communications.

may be withheld for any reason whatsoever and is subject to the sole discretion of DRMS. Neither Contractor nor Purchaser shall publicly denigrate the surplus property disposition program of the U.S. Department of Defense or the conduct thereof by DRMS.

Section 9. Tense and Gender.

Unless the context clearly indicates otherwise, the singular shall include the plural and vice versa. Whenever the masculine, feminine or neuter gender is used inappropriately in this contract, this contract shall be read as if the appropriate gender had been used.

Section 10. Entire Agreement; Modification.

This contract, and the materials incorporated herein by reference, constitute the entire agreement between the parties regarding the matters contained in this contract. If there is any inconsistency between the terms of this contract and those of any Appendix, Schedule or Exhibit hereto, the terms of this contract shall govern. There are no promises or other agreements, oral or written, express or implied, between the parties other than as set forth in this contract. No change or modification of, or waiver or compromise under, this contract shall be valid unless it is in writing and signed by a duly authorized representative of the party against which it is to be enforced. Contractor understands and agrees to submit a written request for contract modification to the SCO prior to effecting any change from that stated in its technical proposal (including any subcontractors identified therein), and/or Sale of Government Property-Item Bid Page, whether occurring before or after the release of the Property. Contractor further agrees not to effect such changes without first receiving the written approval of the SCO.

Section 11. Computation of Time.

In computing any period of time prescribed or allowed by this contract, the Day of the act, event, or default from which the designated period of time begins to run shall not be included. The last Day of the period so computed shall be included unless it is not a Business Day, in which event the period runs until the end of the next Business Day.

Section 12. Electronic Communication.

DRMS and Purchaser shall cooperate to facilitate delivery of Pickup Notices, Invoices and Purchaser's Reports to the extent reasonably practical by electronic transmission, such as by electronic mail or file transfer, rather than by delivery of a physical removable magnetic or optical storage medium.

ARTICLE TWENTY-THREE. DEFINITIONS AND CROSS-REFERENCES TO DEFINITIONS

AAA Rules: As defined in Article 20.

Additional NSN Data: As defined in Article 4.

Additional Property: As defined in Article 2.

ADR: As defined in Article 20,

Affiliate Transaction: Either **(i)** any sale by or on behalf of Purchaser of goods, assets, property or services to, or purchase by or on behalf of Purchaser of goods, assets, property or services from, an Affiliated Party, including, without limitation, the purchase or sale of, or of any interest in, any of the subject Property, or **(ii)** any transaction on behalf of Purchaser conditioned upon or involving any action or transaction entered into by any Affiliated Party, including, without limitation, a transaction that directly or indirectly benefits an Affiliated Party.

Affiliated Party: **(i)** Contractor or any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, Contractor or Purchaser; or **(ii)** any Person that is a director, officer, management official, employee, trustee or general partner of, or an owner of an equity interest of one percent (1%) or more or a beneficiary of a trust owning an equity interest of one percent (1%) or more in, Contractor or any other Person specified in clause **(i)** above; or **(iii)** any individual Person related by blood, marriage or guardianship within two (2) degrees of affinity to any individual Person specified in clauses **(i)** or **(ii)** above. For purposes of this definition, a Person shall be presumed to have control when such Person possesses the power, directly or indirectly, or has the power to direct, or cause the direction of, the management or policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. In addition, and without limiting the foregoing, an employee or subcontractor of Purchaser or Contractor shall be deemed to be an Affiliated Party if he, she or it derives fifty percent (50%) or more of its gross compensation or revenues in any twelve (12) months within the Performance Period or the Wind-Up from Purchaser or from an Affiliated Party.

Annual Pricing Correction: As defined in Article 6.

Annual Report: As defined in Article 8.

Apparent Successful Offeror: As defined in Article 1.

Appointed Arbitrator: As defined in Article 20.

Audit Adjustment: As defined in Article 18.

Awarded Costs: As defined in Article 20.

Base Closure: As defined in Article 3.

Base Compensation: As defined in Article 7.

Benchmark Performance Ratio Proceeds: As defined in Article 2.

Bid Deposit: As defined in Article 1.

Bid Forms: As set forth in the Attachment to the “Bidding Instructions and Bid Forms” that accompany this IFB.

Bid Price: As defined in Article 1.

Breaching Party: As defined in Article 19.

Business Day: Any Day that is not a Saturday, a Sunday or a holiday observed by the federal government. Federal holidays presently are New Year’s Day, Martin Luther King, Jr. Day, President’s Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veteran’s Day, Thanksgiving Day and Christmas Day.

Closing Report: As defined in Article 8.

Compliance Review Firm: As defined in Article 17.

Compliance Review: As defined in Article 17.

Consolidated Pickup Notice: As defined in Article 4.

Container: A receptacle that can hold material or cargo, including without limitation a rolloff, trailer, hopper, compacting or baling rolloff, railcar or barge.

Contractor: The bidder that is selected for the award of the contract.

Contractor Distribution Payment: As defined in Article 16.

Contractor Indirect Cost: Each cost that is not a Direct Cost and is to be paid solely by Contractor.

Contractor Systems and Software: As defined in Article 12.

Control Group: All locations generating Scrap in the states of Tennessee, North Carolina and South Carolina. These locations are excluded from this transaction, and DRMS will conduct traditional sales of Scrap generated in these states for as long as DRMS elects to do so in the exercise of its sole discretion.

COR: As defined in Article 3.

Cure Period: As defined in Article 19.

CV: Sale contract awarded by DRMS on June 13, 2001 between DRMS as seller, and Surplus Acquisition Venture as “Contractor” and Government Liquidation as “Purchaser” and buyer.

Day: A calendar day.

DCS Property: Items that must be demilitarized pursuant to applicable DoD regulations before title to the residue can pass to Purchaser or a re-sale buyer.

Decision: As defined in Article 20.

Delivery: As defined in Article 3.

Delivery Documentation: As defined in Article 3.

Delivery Point: As defined in Article 3.

Delivery Weight: The weight of a particular amount of material, which weight is applied for the purpose of determining pricing on an Invoice.

Demilitarization Code (DEMIL Code): A single character alphabetical code assigned to each item of Property by federal procurement authorities that signifies the applicability of particular demilitarization, mutilation or trade security (export) control requirements.

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- Demilitarization as Condition of Sale Property:** Items that must be demilitarized pursuant to applicable DoD regulations before title to the residue can pass to Purchaser or a re-sale buyer.
- Department of Defense Activity Account Code:** As defined in Article 4.
- Designated Representative:** As defined in Article 20.
- Direct Cost:** As defined in Article 9.
- Discrepancy:** As defined in Article 6.
- Disposal Turn in Document Number:** As defined in Article 4.
- Dispute:** As defined in Article 20.
- Distribution:** A Distribution Payment as adjusted pursuant to the provisions of Article 16.
- Distribution Amount:** As defined in Article 16.
- Distribution Payment:** As defined in Article 16.
- DLA:** Defense Logistics Agency.
- DoD:** U.S. Department of Defense
- DRMO:** Defense Reutilization and Marketing Office.
- DRMO Name:** As defined in Article 4.
- DRMS Benchmark Performance Ratio Proceeds:** As defined in Article 2.
- DRMS Scrap Operation:** Any location where DRMS Scrap is received, stored, processed, treated, collected or located.
- DRMO RIC and RIC Suffix:** As defined in Article 4.
- DTID:** As defined in Article 4.
- ECLR:** The Estimated Contingent Liabilities Reserve, as defined in Article 15.
- EFT:** As defined in Article 5.
- End Use Certificate (EUC):** DLA Form 1822 (a copy of which form is attached as Attachment VI.7.5.B).
- Estimated Contingent Liabilities Reserve:** As defined in Article 15.
- EUC:** End Use Certificate; a DLA Form 1822 (a copy of which form is attached as Attachment VI.7.5.B).
- Federal Supply Classification (FSC):** The federal government’s system of identifying and categorizing items of tangible personal property.
- Fidelity Bond:** As defined in Article 11.
- Fiscal Year:** For a particular calendar year, the twelve (12) calendar month period concluding on 30 September of such year.
- FSC:** Federal Supply Classification; FSCs that pertain to the Property are set forth at Table IV-1 in Part IV, “Item Description.”
- Further Review:** As defined in Article 17.
- GAAP:** As defined in Article 8.
- GFE:** As defined in Article 3.
- Gross Proceeds:** With respect to a particular period of time, all revenues obtained by Purchaser from any source whatsoever excepting (i) Purchase Advances and (ii) Working Capital

Advances, but including without limitation all revenues from the sale or rental of Property, buyers’ premiums and insurance proceeds.

High Value SCL Code: SCL Codes identified in Schedule IV.3.3.B(1).

Host Installation: The federal installation that hosts a particular DRMS activity.

Independent Auditor: Independent national accounting firm engaged by Purchaser to audit Purchaser's Records.

Indexed Market Value: As defined in Article 6.

Indexed Price: As defined in Article 2.

Ineligible Disbursement: As defined in Article 18.

Ineligible Disposition: As defined in Article 18.

Initial Delivery Point: As set forth in Table VI.3.2.C

Inventory Item Name: As defined in Article 4.

Inventory Status Report: As defined in Article 8.

Invoice: As defined in Article 5.

Item Unit of Issue: As defined in Article 4.

Item Unit Price: As defined in Article 4.

Key: As defined in Article 7.

Key Person: Each individual who is identified as such in Contractor's technical proposal.

Line Item: As defined in Article 4.

Local Stock Number: As defined in Article 4.

Material Breach: As defined in Article 19.

Monthly Distribution Statement: As defined in Article 16; see Attachment VI.16.1.

Monthly Report: As defined in Article 8.

Mutilation: The act of making an item unfit for its intended purpose by cutting, tearing, scratching, crushing, breaking, punching, shearing, burning or neutralizing the item.

National Item Identification Number: As defined in Article 4.

National Stock Number [or] Local Stock Number: As defined in Article 4.

Net Proceeds: With respect to a particular period of time, the amount of Gross Proceeds less the amount of Direct Costs.

Neutral Arbitrator: As defined in Article 20.

Non-Breaching Party: As defined in Article 19.

Notice of Audit Adjustment: As defined in Article 18.

Notice of Intent to Award: As defined in Article 1.

On-Site Processing: As defined in Article 3.

Operating Account: As defined in Article 13.

Operating Cash Balance: As defined in Article 16.

Operating Net Worth: As defined in Article 16.

Other Systems and Software: As defined in Article 3.

Outstanding Pickup Notice List: As defined in Article 3.

Overnight Carrier: As defined in Article 22.

Panel: As defined in Article 20.

Payment Deposit: As defined in Article 5.

Payroll Account: As defined in Article 13.

P-Card Account: As defined in Article 13.

Performance Period: As defined in Article 2.

Performance Ratio Property: As defined in Article 2; see Schedule VI.2.2(B).

Permitted Affiliate Transaction: As defined in Article 9; see Schedule VI.9.1A.

Person: Either (i) an individual, or (ii) a business entity of any form of organization whatsoever.

Phase-In Period: As defined in Article 3.

Phase-In Schedule: As defined in Article 3.

Pickup Notice: As defined in Article 3.

Post-Receipt Downgrade: As defined in Part II, Section B.

Post-Receipt Upgrade: As defined in Part II, Section B.

Pre-Payment: As defined in Article 5.

Pricing Correction: As defined in Article 6.

Pricing Discrepancy Benchmark: As defined in Article 6.

Product Pool: As defined in Part II, Section B.

Property: All material or items declared excess to the needs of the Department of Defense and surplus to the needs of the Federal Government, designated as “Scrap,” “Demilitarization as a Condition of Sale Property,” “RRRP Material” or “Additional Property,” and received by DRMS on its accountable record, with a DRMS Hazardous Materials Code other than “W” or “M” and, other than with respect to “Demilitarization as a Condition of Sale Property,” with a Demilitarization Code of “A,” “B,” “E” or “Q,” at the locations within the Continental United States (except North Carolina, South Carolina and Tennessee) or in Alaska, and, if applicable, identified by the SCL Codes that are designated in Table IV-1. At all times the Property includes pallets, boxes, packing material and rigging for such material and items, provided, however, that if the SCO so requests, pallets shall be returned to a particular DRMO.

Property Storage Location: As defined in Article 4.

PSNS: Puget Sound Naval Shipyard.

Purchase Transfer: As defined in Article 14.

Purchaser: As defined in Article I.

Purchaser Liabilities: The total of Purchaser’s liabilities that are determined pursuant to GAAP exclusive of un-repaid Working Capital Advances and Purchase Advances.

Purchaser Systems and Software: As defined in Article 12.

Purchaser Scrap Operation: As defined in Article 3.

Purchaser’s Dedicated Storage: As defined in Article 3.

Purchaser’s Reports: As defined in Article 8.

QRP: As defined in Article 6.

Qualified Recycling Program (“QRP”): As defined in Article 6.

Quantity Available: As defined in Article 4.

Quarterly Purchase Price: As defined in Article 5.

Quarterly Report: As defined in Article 8.

Records: As defined in Article 8.

Refuse: Material that has zero or negative value.

Remaining Assets: As defined in Article 21.

Required Retention Fund Balance: As defined in Article 15.

Reserve Account: As defined in Article 13.

Rcsource Recovery and Recycling Program (“RRRP”): As defined in Article 6.

Response: As defined in Article 20.

Restricted Access Facility: Due to Host Installation restrictions or for other reasons, a particular DRMO or DRMS Operation may occasionally and temporarily be unable to provide storage as provided in Section 3 of Article 3 or access as provided in Subsection (1) of Section 4(A) of Article 3. Any such facility that is not reasonably able to provide such storage or access other than occasionally and temporarily shall be deemed a “Restricted Access Facility.”

Retention Fund: As defined in Article 15.

Retention Payment: As defined in Article 15.

Retention Rate: As defined in Article 15.

Retention Trigger Month: As defined in Article 15.

RIPL: Former DRMO locations that are not full service DRMO Scrap Yards but that have minimal part time staffs and limited DRMS operations.

RRRP Material: As defined in Article 6.

Sale by Reference: As defined in Part V, “Terms and Conditions of Sale;” see Attachment V.

Sales Contracting Officer: The individual person accepting the bid in whole or in part on behalf of the Government, and any other officer or civilian employee who is a properly designated Sales Contracting Officer, including, except as otherwise provided in this contract, the authorized representative of a Sales Contracting Officer acting within the limits of the representative’s authority.

Sales Deposit Account: As defined in Article 13.

SBR: Sale by Reference, as defined in Part V, “Terms and Conditions of Sale;” see Attachment V.

SCL: Scrap Classification List.

SCL Code: Standard Waste and Scrap Classification Code.

SCL Group: As defined in Part II, Section B.

SCO: Sales contracting officer.

Scrap: With respect to a particular item of Property, a designation assigned by or with the approval of DRMS personnel meaning that the item has no value other than for its material content.

Scrap Yard: A place where scrap is collected.

Seller Indirect Cost: As defined in Article 9.

Seller Indirect Cost Reserve: As defined in Article 13.

Shipping Container: As defined in Article 7.

Site Location Code: As defined in Article 4.

Special Situation Locations: Locations that are designated as Delivery Points by DRMS in the exercise of its sole discretion and that are neither a DRMO, a DRMS Scrap Operation, nor a Purchaser Scrap Operation.

Storage Location Code: As defined in Article 4.

SV Performance Ratio: As defined in Article 2.

Termination: As defined in Article 19.

Third Party Software: As defined in Article 12.

Traditional Sales: Sales methods generally employed by DRMS prior to this transaction, including either sealed-bid or negotiated sales that typically provide that Scrap will either be sold on a term sale with “purchaser loading” or sold on a one-time sale with “Government loading.”

Transfer Account: As defined in Article 13.

Upgrade Upon Receipt: As defined in Article 6.

Useable: With respect to a particular item of Property, a designation assigned by or with the approval of DRMS personnel meaning that the item has value in excess of that of the item’s material content.

User Documentation: As defined in Article 12.

Wind-Up Commencement Date: As defined in Article 21.

Working Capital Advance: As defined in Article 13.

Working Capital Advance Balance: As defined in Article 13.

LIQUIDITY SERVICES, INC.
(Formerly known as Liquidation.com, Inc)

2005 STOCK OPTION AND INCENTIVE PLAN

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2005 STOCK OPTION AND INCENTIVE PLAN

AS AMENDED AND RESTATED FEBRUARY 25, 2005

Liquidity Services, Inc., a Delaware corporation formerly known as Liquidation.com, Inc. (the "**Company**"), sets forth herein the terms of its 2005 Stock Option and Incentive Plan (the "**Plan**") as follows:

SECTION 1. PURPOSE

The Plan is intended to enhance the Company's and its affiliates' (as defined herein) ability to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate such officers, directors, key employees, and other persons to serve the Company and its affiliates and to expend maximum effort to improve the business results and earnings of the Company, by providing to such officers, key employees and other persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, restricted stock and restricted stock units in accordance with the terms hereof. Stock options granted under the Plan may be non-qualified stock options or incentive stock options, as provided herein. Prior to the amendment and restatement of the Plan effective February 25, 2005 (the "Amendment and Restatement Date"), the Plan was known as the "Liquidation.com 2000 Stock Option and Incentive Plan." Grants made prior to the Amendment and Restatement Date shall be subject to the terms of the Plan prior to the Amendment and Restatement Date.

SECTION 2. DEFINITIONS

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

"**affiliate**" of, or person "**affiliated**" with, a person means any company or other trade or business that controls, is controlled by or is under common control with such person within the meaning of Rule 405 of Regulation C under the Securities Act, including, without limitation, any Subsidiary.

"**Award Agreement**" means the stock option agreement, restricted stock agreement, restricted stock unit agreement or other written agreement between the Company and a Grantee that evidences and sets out the terms and conditions of a Grant.

"**Benefit Arrangement**" shall have the meaning set forth in **Section 15** hereof.

"**Board**" means the Board of Directors of the Company.

"**Change of Control**" means (i) the dissolution or liquidation of the Company or a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another entity, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving entity) which results in any person or entity (other than persons who are shareholders or affiliates of the Company at the time the Plan is approved by the Company's shareholders) owning 50% or more of the combined voting power of all classes of stock of the Company.

"**Code**" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

"**Committee**" means a committee of, and designated from time to time by resolution of, the Board.

"**Company**" means Liquidity Services, Inc. (formerly known as Liquidation.com, Inc.).

"**Effective Date**" means January 21, 2000, the date the Plan was approved by the Board.

"**Exchange Act**" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

"**Fair Market Value**" means the value of a share of Stock, determined as follows: if on the Grant Date or other determination date the Stock is listed on an established national or regional stock exchange, is admitted to quotation on The Nasdaq Stock Market, Inc., or is publicly traded on an established securities market, the Fair Market Value of a share of Stock shall be the closing price of the Stock on such exchange or in such market (the highest such closing price if there is more than one such exchange or market) on the Grant Date or such other determination date (or if there is no such reported closing price, the Fair Market Value shall be the mean between the highest bid and lowest asked prices or between the high and low sale prices on such trading day) or, if no sale of Stock is reported for such trading day, on the next preceding day on which any sale shall have been reported. If the Stock is not listed on such an exchange, quoted on such system or traded on such a market, Fair Market Value shall be the value of the Stock as determined by the Board in good faith.

"**Family Member**" means a person who is a spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, of the Grantee, any person sharing the Grantee's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than fifty percent of the voting interests.

"**Grant**" means an award of an Option, Restricted Stock or Restricted Stock Units under the Plan.

"**Grant Date**" means, as determined by the Board or authorized Committee, (1) the date as of which the Board or such Committee approves a Grant, (ii) the date on which the recipient of a Grant first becomes eligible to receive a Grant under **Section 6** hereof, or (iii) such other date as may be specified by the Board or such Committee.

"**Grantee**" means a person who receives or holds an Option, Restricted Stock or Restricted Stock Units under the Plan.

"**Incentive Stock Option**" means an "incentive stock option" within the meaning of Section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.

"**Option**" means an option to purchase one or more shares of Stock pursuant to the Plan.

"**Option Period**" means the period during which Options may be exercised as set forth in **Section 10** hereof.

"**Option Price**" means the purchase price for each share of Stock subject to an Option.

"**Other Agreement**" shall have the meaning set forth in **Section 15** hereof.

"**Plan**" means this Liquidity Services, Inc. 2005 Stock Option and Incentive Plan.

"**Reporting Person**" means a person who is required to file reports under Section 16(a) of the Exchange Act.

"**Restricted Period**" means the period during which Restricted Stock or Restricted Stock Units are subject to restrictions or conditions pursuant to **Section 12.2** hereof.

"**Restricted Stock**" means shares of Stock, awarded to a Grantee pursuant to **Section 12** hereof, that are subject to restrictions and to a risk of forfeiture.

"**Restricted Stock Unit**" means a unit awarded to a Grantee pursuant to **Section 12** hereof, which represents a conditional right to receive a share of Stock in the future, and which is subject to restrictions and to a risk of forfeiture.

"**Retire**" and "**Retirement**" mean the termination of employment with the Company or an affiliate on or after the age of 65 or on or after the age of 55 with ten years of service with the Company.

"**Securities Act**" means the Securities Act of 1933, as now in effect or as hereafter amended.

"**Service Provider**" means a director, consultant or adviser to the Company or an affiliate, a manager of the Company's or an affiliate's properties or affairs, or other similar service provider or affiliate of the Company, and employees of any of the foregoing, as such persons may be designated from time to time by the Board pursuant to **Section 6** hereof.

"**Stock**" means the common stock, \$.001 par value per share, of the Company.

"**Subsidiary**" means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code.

"**Termination Date**" means the date upon which an Option shall terminate or expire, as set forth in **Section 10.2** hereof.

SECTION 3. ADMINISTRATION OF THE PLAN

3.1 Board.

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company's certificate of incorporation and by-laws and applicable law. The Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Grant or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan, any Grant or any Award Agreement. All such actions and determinations shall be by the affirmative vote of a majority of the members of the Board present at a meeting or by unanimous consent of the Board executed in writing in accordance with the Company's certificate of incorporation and by-laws and applicable law. The interpretation and construction by the Board of any provision of the Plan, any Grant or any Award Agreement shall be final and conclusive.

3.2 Committee.

The Board from time to time may delegate to a Committee such powers and authorities related to the administration and implementation of the Plan, as set forth in **Section 3.1** above and in other applicable provisions, as the Board shall determine, consistent with the certificate of incorporation and by-laws of the Company and applicable law. In the event that the Plan, any Grant or any Award Agreement entered into hereunder provides for any action to be taken by or determination to be made by the Board, such action may be taken by or such determination may be made by the Committee if the power and authority to do so has been delegated to the Committee by the Board as provided for in this Section. Unless otherwise expressly determined by the Board, any such action or determination by the Committee shall be final, binding and conclusive.

3.3 Grants.

Subject to the other terms and conditions of the Plan, the Board shall have full and final authority (i) to designate Grantees, (ii) to determine the type or types of Grant to be made to a Grantee, (iii) to determine the number of shares of Stock to be subject to a Grant, (iv) to establish the terms and conditions of each Grant (including, but not limited to, the exercise price of any Option, the nature

and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of a Grant or the shares of Stock subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options), (v) to prescribe the form of each Award Agreement evidencing a Grant, and (vi) to amend, modify, or supplement the terms of any outstanding Grant, provided, that such change will not materially impair the rights of the Grantee under an outstanding Grant. Such authority specifically includes the authority, in order to effectuate the purposes of the Plan but without amending the Plan, to modify Grants to eligible individuals who are foreign nationals or are individuals who are employed outside the United States to recognize differences in local law, tax policy, or custom. As a condition to any Grant, the Board shall have the right, at its discretion, to require Grantees to return to the Company Grants previously awarded under the Plan. Subject to the terms and conditions of the Plan, any such subsequent Grant shall be upon such terms and conditions as are specified by the Board at the time the new Grant is made. The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee on account of actions taken by the Grantee in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any affiliate thereof or any confidentiality obligation with respect to the Company or any affiliate thereof or otherwise in competition with the Company, to the extent specified in such Award Agreement applicable to the Grantee. Furthermore, the Company may annul a Grant if the Grantee is an employee of the Company or an affiliate thereof and is terminated "for cause" as defined in the applicable Award Agreement. The Board may permit or require the deferral of any award payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Stock equivalents.

3.4 No Liability.

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant or Award Agreement.

SECTION 4. STOCK SUBJECT TO THE PLAN

Subject to adjustment as provided in **Section 18** hereof, the number of shares of Stock available for issuance under the Plan shall be 7,611,195 shares. Stock issued or to be issued under the Plan shall be authorized but unissued shares. If any shares covered by a Grant are not purchased or are forfeited, or if a Grant otherwise terminates without delivery of any Stock subject thereto, then the number of shares of Stock counted against the aggregate number of shares available under the Plan with respect to such Grant shall, to the extent of any such forfeiture or termination, again be available for making Grants under the Plan.

SECTION 5. EFFECTIVE DATE AND TERM OF THE PLAN

5.1 Effective Date.

The Plan shall be effective as of the Effective Date, subject to approval of the Plan within one year of the Effective Date, by a majority of the votes cast on the proposal at a meeting of shareholders, provided that a quorum is present or by the written consent of the holders of a majority of the Company's shares of Stock entitled to vote. Upon approval of the Plan by the shareholders of the Company as set forth above, all Grants made under the Plan on or after the Effective Date shall be fully effective as if the shareholders of the Company had approved the Plan on the Effective Date. If the shareholders fail to approve the Plan within one year after the Effective Date, any Grants made hereunder shall be null and void and of no effect.

5.2 Term.

The Plan has no termination date; however, no Incentive Stock Option may be granted under the Plan on or after the tenth anniversary of the Amendment and Restatement Date.

SECTION 6. OPTION GRANTS

6.1 Employees; Service Providers; or Other Persons.

Grants (including Grants of Incentive Stock Options, subject to **Section 7.1**) may be made under the Plan to: (i) any employee, officer or director of, or other Service Provider providing, or who has provided, services to, the Company or any affiliate, including any such employee who is an officer or director of the Company or of any affiliate, as the Board shall determine and designate from time to time; or (ii) any other individual whose participation in the Plan is determined to be in the best interests of the Company by the Board.

6.2 Successive Grants.

An eligible person may receive more than one Grant, subject to such restrictions as are provided herein.

SECTION 7. LIMITATIONS ON GRANTS

7.1 Limitations on Incentive Stock Options.

An Option shall constitute an Incentive Stock Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its affiliates) does not exceed \$100,000. This limitation shall be applied by taking Options into account in the order in which they were granted.

SECTION 8. AWARD AGREEMENT

Each Grant pursuant to the Plan shall be evidenced by an Award Agreement, in such form or forms as the Board shall from time to time determine. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing a Grant of Options shall specify whether such Options are intended to be non-qualified stock options or Incentive Stock Options, and in the absence of such specification such options shall be deemed non-qualified stock options.

SECTION 9. OPTION PRICE

The Option Price of each Option shall be fixed by the Board and stated in the Award Agreement evidencing such Option and shall be at least 100% of the Fair Market Value on the Grant Date of a share of Stock; provided, however, that in the event that a Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent of the Company's outstanding shares of Stock), the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than the greater of the par value or 110 percent of the Fair Market Value of a share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a share of Stock.

SECTION 10. VESTING, TERM AND EXERCISE OF OPTIONS

10.1 Vesting and Option Period.

Subject to **Sections 10.2** and **18.3** hereof, each Option granted under the Plan shall become exercisable at such times and under such conditions as shall be determined by the Board and stated in the Award Agreement. For purposes of this **Section 10.1**, fractional numbers of shares of Stock subject to an Option shall be rounded down to the next nearest whole number. The period during which any Option shall be exercisable shall constitute the "**Option Period**" with respect to such Option.

10.2 Term.

Each Option granted under the Plan shall terminate, and all rights to purchase shares of Stock thereunder shall cease, upon the expiration of ten years from the date such Option is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the Award Agreement relating to such Option; provided, however, that in the event that the Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent of the outstanding shares of Stock), an Option granted to such Grantee that is intended to be an Incentive Stock Option shall not be exercisable after the expiration of five years from its Grant Date.

10.3 Acceleration.

Any limitation on the exercise of an Option contained in any Award Agreement may be rescinded, modified or waived by the Board, in its sole discretion, at any time and from time to time after the Grant Date of such Option, so as to accelerate the time at which the Option may be exercised. Notwithstanding any other provision of the Plan, no Option shall be exercisable in whole or in part prior to the date the Plan is approved by the shareholders of the Company as provided in **Section 5.1** hereof.

10.4 Termination of Employment or Other Relationship.

Unless otherwise provided by the Board, upon the termination of a Grantee's employment or other relationship with the Company or any affiliate other than by reason of death or "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code), any Option or portion thereof held by such Grantee that has not vested in accordance with the provisions of **Section 10.1** hereof shall terminate immediately, and any Option or portion thereof that has vested in accordance with the provisions of **Section 10.1** hereof but has not been exercised shall terminate at the close of business on the 30th day following the Grantee's termination of employment or other relationship (or, if such 30th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday). Upon termination of an Option or portion thereof, the Grantee shall have no further right to purchase shares of Stock pursuant to such Option or portion thereof. Whether a termination of employment or other relationship shall have occurred for purposes of the Plan shall be determined by the Board, which determination shall be final and conclusive. For purposes of the Plan, a termination of employment, service or other relationship shall not be deemed to occur if the Grantee is immediately thereafter a director of the Company or an affiliate.

10.5 Rights in the Event of Death.

Unless otherwise provided by the Board, if a Grantee dies while employed by or providing services to the Company or an affiliate, all Options granted to such Grantee shall fully vest on the date of death, and the executors or administrators or legatees or distributees of such Grantee's estate shall have the right, at any time within one year after the date of such Grantee's death and prior to

termination of the Option pursuant to **Section 10.2** above, to exercise any Option held by such Grantee at the date of such Grantee's death.

10.6 Rights in the Event of Disability.

Unless otherwise provided by the Board, if a Grantee's employment or other relationship with the Company or an affiliate is terminated by reason of the "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code) of such Grantee, all Options granted to such Grantee shall fully vest on the date of permanent and total disability, and the Grantee shall have the right, at any time within one year after the date of such Grantee's permanent and total disability and prior to termination of the Option pursuant to **Section 10.2** above, to exercise any Option held by such Grantee. Whether a termination of employment or service is to be considered by reason of "**permanent and total disability**" for purposes of the Plan shall be determined by the Board, which determination shall be final and conclusive.

10.7 Rights in the Event of Retirement

Unless otherwise provided by the Board, if a Grantee Retires while employed by or providing services to the Company or an affiliate, all Options granted to such Grantee shall fully vest on the date of Retirement, and Grantee shall have the right, at any time within one year after the date of such Grantee's Retirement and prior to termination of the Option pursuant to **Section 10.2** above, to exercise any Option held by such Grantee at the date of such Grantee's Retirement.

10.8 Limitations on Exercise of Option.

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, prior to the date the Plan is approved by the shareholders of the Company as provided herein, or after ten years following the date upon which the Option is granted, or after the occurrence of an event referred to in **Section 18** hereof which results in termination of the Option.

10.9 Method of Exercise.

An Option that is exercisable may be exercised by the Grantee's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, addressed to the attention of the Board. Such notice shall specify the number of shares of Stock with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. The minimum number of shares of Stock with respect to which an Option may be exercised, in whole or in part, at any time shall be the lesser of (i) 100 shares or such lesser number set forth in the applicable Award Agreement and (ii) the maximum number of shares available for purchase under the Option at the time of exercise. Payment of the Option Price for the shares purchased pursuant to the exercise of an Option shall be made (i) in cash or in cash equivalents acceptable to the Company; (ii) to the extent permitted by law and at the Board's discretion, through the tender to the Company of shares of Stock, which shares, if acquired from the Company, shall have been held for at least six months at the time of tender (if so required by the Board) and which shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at their Fair Market Value on the date of exercise; or (iii) to the extent permitted by law and at the Board's discretion, by a combination of the methods described in (i) and (ii). In addition and unless the Board provides otherwise in the Award Agreement, payment in full of the Option Price need not accompany the written notice of exercise provided that the notice of exercise directs that the certificate or certificates for the shares of Stock for which the Option is exercised be delivered to a licensed broker acceptable to the Company as the agent for the individual exercising the Option and, at the time such certificate or certificates are delivered, the broker tenders to the Company cash (or cash equivalents acceptable to the Company) equal to the Option Price for the

shares of Stock purchased pursuant to the exercise of the Option plus the amount (if any) of federal and/or other taxes which the Company may in its judgment, be required to withhold with respect to the exercise of the Option. An attempt to exercise any Option granted hereunder other than as set forth above shall be invalid and of no force and effect. Unless otherwise stated in the applicable Award Agreement, an individual holding or exercising an Option shall have none of the rights of a shareholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject shares of Stock or to direct the voting of the subject shares of Stock) until the shares of Stock covered thereby are fully paid and issued to such individual. Except as provided in **Section 18** hereof, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

10.10 Delivery of Stock Certificates.

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price, such Grantee shall be entitled to the issuance of a stock certificate or certificates evidencing such Grantee's ownership of the shares of Stock subject to the Option. Notwithstanding any provision of this Plan to the contrary, the Company may satisfy any requirement to deliver share certificates under this Plan through the book-entry method of share recordation.

SECTION 11. TRANSFERABILITY OF OPTIONS

11.1 Transferability of Options

Except as provided in **Section 11.2**, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's guardian or legal representative) may exercise an Option. Except as provided in **Section 11.2**, no Option shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

11.2 Family Transfers

If authorized in the applicable Award Agreement, a Grantee may transfer, not for value, all or part of an Option which is not an Incentive Stock Option to any Family Member. For the purpose of this **Section 11.2**, a "*not for value*" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this **Section 11.2**, any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Subsequent transfers of transferred Options are prohibited except to Family Members of the original Grantee in accordance with this **Section 11.2** or by will or the laws of descent and distribution. The events of termination of employment or other relationship of **Section 10.4** hereof shall continue to be applied with respect to the original Grantee, following which the Option shall be exercisable by the transferee only to the extent, and for the periods specified in **Sections 10.4, 10.5, or 10.6**.

SECTION 12. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

12.1 Grant of Restricted Stock or Restricted Stock Units.

The Board may from time to time grant Restricted Stock or Restricted Stock Units to persons eligible to receive Grants under **Section 6** hereof, subject to such restrictions, conditions and other terms as the Board may determine.

12.2 Restrictions.

At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Board shall establish a period of time (the "**Restricted Period**") applicable to such Restricted Stock or Restricted Stock Units. Each Grant of Restricted Stock or Restricted Stock Units may be subject to a different Restricted Period. The Board may, in its sole discretion, at the time a Grant of Restricted Stock or Restricted Stock Units is made, prescribe restrictions in addition to or other than the expiration of the Restricted Period, including the satisfaction of corporate or individual performance objectives, which may be applicable to all or any portion of the Restricted Stock or Restricted Stock Units. The Board also may, in its sole discretion, shorten or terminate the Restricted Period or waive any other restrictions applicable to all or a portion of the Restricted Stock or Restricted Stock Units. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Board with respect to such Restricted Stock or Restricted Stock Units.

12.3 Restricted Stock Certificates.

The Company shall issue, in the name of each Grantee to whom Restricted Stock has been granted, stock certificates representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantees benefit until such time as the Restricted Stock is forfeited to the Company, or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends that complies with the applicable securities laws and regulations and makes appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

12.4 Rights of Holders of Restricted Stock.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock shall have the right to vote such Stock and the right to receive any dividends declared or paid with respect to such Stock. The Board may provide that any dividends paid on Restricted Stock must be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares, or other similar transaction shall be subject to the restrictions applicable to the original Grant.

12.5 Rights of Holders of Restricted Stock Units.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock Units shall have no rights as stockholders of the Company. The Board may provide in an Award Agreement evidencing a Grant of Restricted Stock Units that the holder of such Restricted Stock Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding Stock, a cash payment for each Restricted Stock Unit held equal to the per-share dividend paid on the Stock. Such Award Agreement may also provide that such cash payment will be deemed reinvested in additional Restricted Stock Units at a price per unit equal to the Fair Market Value of a share of Stock on the date that such dividend is paid.

12.6 Termination of Employment or Other Relationship.

Unless otherwise provided by the Board, upon the termination of a Grantee's employment or other relationship with the Company or an affiliate other than by reason of death or "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code), any shares of Restricted Stock or Restricted Stock Units held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of Restricted Stock or Restricted Stock Units, the Grantee shall have no further rights with respect to such Grant, including but not limited to any right to vote Restricted Stock or any right to receive dividends with respect to shares of Restricted Stock or Restricted Stock Units. Whether a termination of employment or other relationship shall have occurred for purposes of the Plan shall be determined by the Board, which determination shall be final and conclusive. For purposes of the Plan, a termination of employment, service or other relationship shall not be deemed to occur if the Grantee is immediately thereafter a director of the Company or an affiliate.

12.7 Rights in the Event of Death.

Unless otherwise provided by the Board, if a Grantee dies while employed by the Company or an affiliate, all Restricted Stock or Restricted Stock Units granted to such Grantee shall fully vest on the date of death, and the shares of Stock represented thereby shall be deliverable in accordance with the terms of the Plan to the executors, administrators, legatees or distributees of the Grantee's estate.

12.8 Rights in the Event of Disability.

Unless otherwise provided by the Board, if a Grantee's employment or other relationship with the Company or an affiliate is terminated by reason of the "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code) of such Grantee, such Grantee's Restricted Stock or Restricted Stock Units shall continue to vest in accordance with the applicable Award Agreement for a period of one year after such termination of employment or service, subject to the earlier forfeiture of such Restricted Stock or Restricted Stock Units in accordance with the terms of the applicable Award Agreement. Whether a termination of employment or service is to be considered by reason of "**permanent and total disability**" for purposes of the Plan shall be determined by the Board, which determination shall be final and conclusive.

12.9 Delivery of Stock and Payment Therefor.

Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to shares of Restricted Stock or Restricted Stock Units shall lapse, and, unless otherwise provided in the Award Agreement, upon payment by the Grantee to the Company, in cash or by check, of the greater of (i) the aggregate par value of the shares of Stock represented by such Restricted Stock or Restricted Stock Units or (ii) the purchase price, if any, specified in the Award Agreement relating to such Restricted Stock or Restricted Stock Units, a stock certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be.

SECTION 13. NONTRANSFERABILITY OF SHARES; REPURCHASE RIGHTS

13.1 Nontransferability of Shares

Subject to **Section 13.4** below, a Grantee (or such other individual who is entitled to exercise an Option or otherwise acquire shares pursuant to a Grant) shall not sell, pledge, assign, gift, transfer, or otherwise dispose of any shares of Stock acquired pursuant to a Grant to any person or entity without first offering such shares to the Company for purchase on the same terms and conditions as those offered the proposed transferee. The Company may assign its right of first refusal under this **Section 13**

in whole or in part, to (1) any holder of stock or other securities of the Company (a "**Stockholder**"), (2) any affiliate or (3) any other person or entity that the Board of Directors of the Company determines has a sufficient relationship with or interest in the Company. The Company shall give reasonable written notice to the Grantee of any such assignment of its rights. The restrictions of this **Section 13.1** apply to any person to whom Stock that was originally acquired pursuant to a Grant is sold, pledged, assigned, bequeathed, gifted, transferred or otherwise disposed of, without regard to the number of such subsequent transferees or the manner in which they acquire the Stock, but the restrictions of this **Section 13.1** do not apply to a transfer of Stock that occurs as a result of the death of the Grantee or of any subsequent transferee (but shall apply to the executor, the administrator or personal representative, the estate, and the legatees, beneficiaries and assigns thereof).

13.2 Repurchase Rights.

Subject to **Section 13.4** below, upon the termination of a Grantee's employment or other relationship with the Company or an affiliate, the Company shall have the right, for a period of up to twelve months following such termination, to repurchase any or all of the shares of Stock acquired by the individual pursuant to this Plan under a Grant (including shares of Stock that were previously transferred pursuant to **Sections 11** or **13.1**), at a price equal to the Fair Market Value of such shares of Stock on the date of termination, unless a different repurchase price is specified in the applicable Award Agreement. Upon the exercise of an Option following termination of a Grantee's employment or other relationship with the Company or an affiliate, the Company shall have the right, for a period of up to twelve months following such exercise, to repurchase any or all such shares of Stock acquired by the Grantee pursuant to such exercise of such Option at a price that is equal to the fair market value of such shares (including shares that were previously transferred pursuant to **Sections 11** or **13.1** above) on the date of exercise (or at such other price or the Fair Market Value on such other date as shall have been specified by the Board at the time of grant and set out in the appropriate Award Agreement with respect to the grant). In the event that the Company determines that it cannot or will not exercise its rights to purchase Stock under this **Section 13.2** and the applicable Award Agreement, in whole or in part, the Company may assign its rights, in whole or in part, to (1) any Stockholder (2) any affiliate or (3) any other person or entity that the Board of Directors of the Company determines has a sufficient relationship with or interest in the Company. The Company shall give reasonable written notice to the individual of any assignment of its rights.

13.3 Installment Payments

In the case of any purchase of Stock or an Option under this **Section 13**, the Company or its permitted assignee may pay the Grantee, transferee of the Option or other registered owner of the Stock the purchase price in three or fewer annual installments. Interest shall be credited on the installments at the applicable federal rate (as determined for purposes of Section 1274 of the Code) in effect on the date on which the purchase is made. The Company or its permitted assignee shall pay at least one-third of the total purchase price each year, plus interest on the unpaid balance, with the first payment being made on or before the 60th day after the purchase.

13.4 Publicly Traded Stock

If the Stock is listed on an established national or regional stock exchange or is admitted to quotation on the National Association of Securities Dealers Automated Quotation System, or is publicly traded in an established securities market, the foregoing transfer restrictions of **Sections 13.1** and **13.2** shall terminate as of the first date that the Stock is so listed, quoted or publicly traded.

13.5 Legend

In order to enforce the restrictions imposed upon shares of Stock under this Plan or as provided in an Award Agreement, the Board may cause a legend or legends to be placed on any certificate representing shares issued pursuant to this Plan that complies with the applicable securities laws and regulations and makes appropriate reference to the restrictions imposed under it.

SECTION 14. CERTAIN PROVISIONS APPLICABLE TO AWARDS

14.1 Stand-Alone, Additional, Tandem, and Substitute Grants

Grants under the Plan may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Grant or any award granted under another plan of the Company, any affiliate, or any business entity to be acquired by the Company or an affiliate, or any other right of a Grantee to receive payment from the Company or any affiliate. Such additional, tandem, and substitute or exchange Grants may be awarded at any time. If a Grant is awarded in substitution or exchange for another Grant, the Board shall require the surrender of such other Grant in consideration for the new Grant. In addition, Grants may be made in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any affiliate, in which the value of Stock subject to the Grant is equivalent in value to the cash compensation (for example, Restricted Stock), or in which the exercise price, grant price or purchase price of the Grant in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Stock minus the value of the cash compensation surrendered (for example, Options granted with an exercise price "*discounted*" by the amount of the cash compensation surrendered).

14.2 Term of Grant

The term of each Grant shall be for such period as may be determined by the Board; provided that in no event shall the term of any Option exceed a period of ten years (or such shorter term as may be required in respect of an Incentive Stock Option under Section 422 of the Code).

14.3 Form and Timing of Payment Under Grants; Deferrals

Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or an affiliate upon the exercise of an Option or other Grant may be made in such forms as the Board shall determine, including, without limitation, cash, Stock, other Grants or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Grant may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Board or upon occurrence of one or more specified events. Installment or deferred payments may be required by the Board or permitted at the election of the Grantee on terms and conditions established by the Board. Payments may include, without limitation, provisions for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of dividend equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

SECTION 15. PARACHUTE LIMITATIONS

Notwithstanding any other provision of this Plan or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Grantee with the Company or any affiliate, except an agreement, contract, or understanding hereafter entered into that expressly modifies or excludes application of this paragraph (an "*Other Agreement*"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Grantee (including groups or classes of participants or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee (a

"**Benefit Arrangement**"), if the Grantee is a "**disqualified individual**," as defined in Section 280G(c) of the Code, any Option, Restricted Stock or Restricted Stock Unit held by that Grantee and any right to receive any payment or other benefit under this Plan shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Grantee under this Plan, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Grantee under this Plan to be considered a "**parachute payment**" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "**Parachute Payment**") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under this Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Grantee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment, or benefit under this Plan, in conjunction with all other rights, payments, or benefits to or for the Grantee under any Other Agreement or any Benefit Arrangement would cause the Grantee to be considered to have received a Parachute Payment under this Plan that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then the Grantee shall have the right, in the Grantee's sole discretion, to designate those rights, payments, or benefits under this Plan, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under this Plan be deemed to be a Parachute Payment.

SECTION 16. REQUIREMENTS OF LAW

16.1 General.

The Company shall not be required to sell or issue any shares of Stock under any Grant if the sale or issuance of such shares would constitute a violation by the Grantee, any other individual exercising a right emanating from such Grant, or the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares subject to a Grant upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, no shares of Stock may be issued or sold to the Grantee or any other individual exercising an Option pursuant to such Grant unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Grant. Specifically, in connection with the Securities Act, upon the exercise of any right emanating from such Grant or the delivery of any shares of Restricted Stock or Stock underlying Restricted Stock Units, unless a registration statement under such Act is in effect with respect to the shares of Stock covered by such Grant, the Company shall not be required to sell or issue such shares unless the Board has received evidence satisfactory to it that the Grantee or any other individual exercising an Option may acquire such shares pursuant to an exemption from registration under the Securities Act. Any determination in this connection by the Board shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or the issuance of shares of Stock pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option shall not be exercisable until the shares of Stock covered by such Option are registered or are exempt from registration, the exercise of such Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

16.2 Rule 16b-3.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Grants pursuant to the Plan and the exercise of Options granted hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

SECTION 17. AMENDMENT AND TERMINATION OF THE PLAN

The Board may, at any time and from time to time, amend, suspend, or terminate the Plan as to any shares of Stock as to which Grants have not been made. Except as permitted under this **Section 17** or **Section 18** hereof, no amendment, suspension, or termination of the Plan shall, without the consent of the Grantee, alter or impair rights or obligations under any Grant theretofore awarded under the Plan.

SECTION 18. EFFECT OF CHANGES IN CAPITALIZATION

18.1 Changes in Stock.

If the number of outstanding shares of Stock is increased or decreased or the shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company on account of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the Effective Date, the number and kinds of shares for which Grants of Options, Restricted Stock and Restricted Stock Units may be made under the Plan shall be adjusted proportionately and accordingly by the Company. In addition, the number and kind of shares for which Grants are outstanding shall be adjusted proportionately and accordingly so that the proportionate interest of the Grantee immediately following such event shall, to the extent practicable, be the same as immediately before such event. Any such adjustment in outstanding Options shall not change the aggregate Option Price payable with respect to shares that are subject to the unexercised portion of an Option outstanding but shall include a corresponding proportionate adjustment in the Option Price per share. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. The Board may also make the adjustments described in this **Section 18.1** in the event of a cash dividend other than a normal cash dividend. In determining adjustments to be made under this **Section 18.1**, the Board may take into account such factors as it deems appropriate, including (i) the restrictions of applicable law and (ii) the potential tax consequences of an adjustment. Any such adjustments to outstanding Grants will be effected in a manner that precludes the enlargement of rights and benefits under such Grants.

18.2 Reorganization in Which the Company Is the Surviving Entity and in Which No Change of Control Occurs.

Subject to **Section 18.3** hereof, if the Company shall be the surviving entity in any reorganization, merger, or consolidation of the Company with one or more other entities and in which no Change of Control occurs, any Option and Restricted Stock Unit theretofore granted pursuant to the Plan shall pertain to and apply to the securities to which a holder of the number of shares of Stock subject to such Option or Restricted Stock Unit would have been entitled immediately following such reorganization, merger, or consolidation, with a corresponding proportionate adjustment of the Option Price per share so that the aggregate Option Price thereafter shall be the same as the aggregate Option Price of the shares remaining subject to the Option immediately prior to such reorganization, merger, or consolidation. Subject to any contrary language in an Award Agreement evidencing a Grant of Restricted Stock, any restrictions applicable to such Restricted Stock shall apply as well to any replacement shares received by the Grantee as a result of the reorganization, merger or consolidation.

18.3 Reorganization, Sale of Assets or Sale of Stock Which Involves a Change of Control.

18.3.1 Grants Not Continued

Subject to **Section 18.3.2**, (i) upon the occurrence of a Change of Control, all outstanding shares of Restricted Stock and all Restricted Stock Units shall be deemed to have vested, and all restrictions and conditions applicable to such shares of Restricted Stock shall be deemed to have lapsed and the shares subject to such Restricted Stock Units shall be delivered, immediately prior to the occurrence of such Change of Control, and (ii) fifteen days prior to the scheduled consummation of a Change of Control, all Options outstanding hereunder shall become immediately exercisable and shall remain exercisable for a period of fifteen days. Any exercise of an Option during such fifteen-day period shall be conditioned upon the consummation of the event and shall be effective only immediately before the consummation of the event. Upon consummation of any Change of Control, the Plan and all outstanding but unexercised Options shall terminate. The Board shall send written notice of an event that will result in such a termination to all individuals who hold Options not later than the time at which the Company gives notice thereof to its shareholders.

18.3.2 Grants Continued

Section 18.3.1 shall not apply to any Change of Control to the extent that provision is made in writing in connection with such Change of Control for the assumption of the Options, Restricted Stock and Restricted Stock Units theretofore granted, or for the substitution for such Options, Restricted Stock and Restricted Stock Units of new options, restricted stock and restricted stock units covering the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares and exercise prices, in which event vesting and share delivery shall not be accelerated and the Options, Restricted Stock and Restricted Stock Units theretofore granted shall continue in the manner and under the terms so provided. Notwithstanding the foregoing, Options and Restricted Stock granted under the Plan prior to May 23, 2000 shall become fully vested upon the occurrence of a Change of Control.

18.4 Adjustments.

Adjustments under this **Section 18** related to shares of Stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

18.5 No Limitations on Company.

The making of Grants pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

SECTION 19. DISCLAIMER OF RIGHTS

No provision in the Plan or in any Grant or Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any affiliate, or to interfere in any way with any contractual or other right or authority of the Company either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, no Grant awarded under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a director, officer, consultant or employee of the Company or any affiliate. The obligation of the Company to pay any benefits pursuant to this Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any participant or beneficiary under the terms of the Plan. No Grantee shall have any of the rights of a shareholder with respect to the shares of Stock subject to an Option except to the extent the certificates for such shares of Stock shall have been issued upon the exercise of the Option.

SECTION 20. NONEXCLUSIVITY OF THE PLAN

Neither the adoption of the Plan nor the submission of the Plan to the shareholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable, including, without limitation, the granting of stock options otherwise than under the Plan.

SECTION 21. WITHHOLDING TAXES

The Company or any affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any Federal, state, or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to Restricted Stock or Restricted Stock Units or upon the issuance of any shares of Stock upon the exercise of an Option. At the time of such vesting, lapse, or exercise, the Grantee shall pay to the Company or affiliate, as the case may be, any amount that the Company or affiliate may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the affiliate, which may be withheld by the Company or the affiliate, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the affiliate to withhold shares of Stock otherwise issuable to the Grantee or (ii) by delivering to the Company or the affiliate shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the affiliate as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this **Section 21** may satisfy his or her withholding

obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

SECTION 22. CAPTIONS

The use of captions in this Plan or any Award Agreement is for the convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

SECTION 23. OTHER PROVISIONS

Each Grant awarded under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion.

SECTION 24. NUMBER AND GENDER

With respect to words used in this Plan, the singular form shall include the plural form, the masculine gender shall include the feminine gender, etc., as the context requires.

SECTION 25. SEVERABILITY

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

SECTION 26. GOVERNING LAW

The validity and construction of this Plan and the instruments evidencing the Grants awarded hereunder shall be governed by the laws of the State of Delaware (excluding the choice of law rules thereof).

SECTION 27. BLUE SKY PROVISIONS REQUIRED TO BE SET FORTH IN THE PLAN

27.1 California Provisions

Notwithstanding the foregoing sections, any Grant made under the Plan to a Grantee who is a resident of the State of California on the Grant Date shall be subject to the following additional terms and conditions:

- A. For the purpose of Grants which are not Incentive Stock Options, Fair Market Value shall be determined in a manner not inconsistent with Section 260.140.50 of the California Code of Regulations or any successor statute.
- B. Grants may not be made under the Plan to Grantees ten years after the earlier of: (i) the date the Plan was adopted by the Board or (ii) the date the Plan was approved by the shareholders of the Company.
- C. An Option granted under the Plan to a Grantee who is a person who owns stock possessing more than ten percent of the combined voting power of all classes of stock of the Company or its parent or its Subsidiary corporations shall have an Option Price of at least 110% of the Fair Market Value of a share of Stock on the Grant Date.
- D. Any Option granted under the Plan to a Grantee who is not an officer, director, or consultant of the Company or its affiliates shall become exercisable at a rate of at least twenty percent (20%) of the shares of Stock subject to such Grant per year for a period of five years from the Grant Date; provided, that, such Option shall be subject to such reasonable forfeiture

conditions as the Board may choose to impose and which are not inconsistent with Section 260.140.41 of the California Code of Regulations or any successor statute.

- E. The Company shall deliver to the Grantee financial statements on an annual basis regarding the Company. The financial statements so provided shall comply with Section 260.140.46 of the California Code of Regulations or any successor statute, but need not comply with Section 260.613 of the California Code of Regulations or any successor statute.
- F. Any transfer of an Option granted under the Plan authorized by the Board in an Award Agreement must comply with Section 260.140.41(d) of the California Code of Regulations or any successor statute.
- G. A grant which authorizes a Grantee to purchase Stock under the Plan (other than a non-qualified stock option) shall not be transferable other than by will or the laws of descent and distribution.
- H. Unless a Grantee's employment is terminated for cause as defined by applicable law, the Grantee shall have the right to exercise an Option, prior to the termination of the Option in accordance with **Section 10** and only to the extent that the Grantee was entitled to exercise such Option on the date employment terminates, as follows: (i) at least six (6) months from the date of termination if the termination was caused by the Grantee's death or "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code), and (ii) at least thirty (30) days from the date of termination if termination was caused by other than death or "**permanent and total disability**" (within the meaning of Section 22(e)(3) of the Code) of the Grantee.
- I. The purchase price for a grant of Restricted Stock or Restricted Stock Units shall be at least 85% of the Fair Market Value of the Stock on the Grant Date and at least 100% of the Fair Market Value of Stock on the Grant Date in the case of a person who owns stock possessing more than ten percent of the combined voting power of all classes of stock of the Company or its parent or its Subsidiary corporations.
- J. At no time shall the total number of shares of Stock issuable upon exercise of all outstanding Options and the total number of shares provided for under all stock bonus or similar plans of the Company exceed the applicable percentage as calculated in accordance with the conditions and exclusions of Section 260.140.45 of the California Code of Regulations or any successor statute.
- K. Grants may be made only to persons who are employees, directors, or consultants of the Company or its affiliates.

If the Stock is listed on an established national or regional stock exchange or is admitted to quotation on the National Association of Securities Dealers Automated Quotation System, or is publicly traded in an established securities market, the restrictions of this **Section 27.1** shall terminate as of the first date that the Stock is so listed, quoted or publicly traded.

27.2 Florida, Virginia and Missouri Provisions

Notwithstanding **Section 6**:

- (a) a resident of Florida or Virginia who is not an employee or director of the Company or an employee of any wholly-owned subsidiary of the Company shall not be eligible to receive a Grant under the Plan; and
- (b) a resident of Missouri who is not an employee of the Company or an employee of any wholly-owned subsidiary of the Company shall not be eligible to receive a Grant under the Plan.

SECTION 28. SECTION 409A OF THE CODE

To the extent that the Board determines that a Grantee would be subject to the additional 20% tax imposed on certain deferred compensation arrangements pursuant to Section 409A of Code as a result of any provision of any Grant, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The Board shall determine the nature and scope of such amendment.

* * *

The Plan was originally adopted and approved by the Board of Directors of the Company as of the 3rd day of January, 2000 and the amended and restated Plan was duly adopted and approved by the Board of Directors as of the 25th day of February, 2005.

/s/ WILLIAM P. ANGRICK, III

William P. Angrick, III
Secretary

The Plan was originally approved by the stockholders of the Company on the 3rd day of January, 2000 and the amended and restate Plan was duly approved by the stockholders of the Company on the 25th day of February, 2005.

/s/ WILLIAM P. ANGRICK, III

William P. Angrick, III
Secretary

SUBSIDIARIES OF LIQUIDITY SERVICES, INC.

Company	Jurisdiction of Organization
Surplus Acquisition Venture, LLC	Delaware
Government Liquidation.com, LLC*	Delaware
Liquidity Services Limited	UK
DOD Surplus, LLC	Delaware

* Government Liquidation.com, LLC is a subsidiary of Surplus Acquisition Venture, LLC.

QuickLinks

[SUBSIDIARIES OF LIQUIDITY SERVICES, INC.](#)

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the captions "Selected Consolidated Financial Data" and "Experts" and to the use of our reports dated November 7, 2005 on the consolidated financial statements and schedule of Liquidity Services, Inc. and subsidiaries in the Registration Statement (Form S-1) and related Prospectus of Liquidity Services, Inc. and subsidiaries for the registration of shares of its common stock.

McLean, Virginia
November 10, 2005

/s/ Ernst & Young LLP

[HOGAN & HARTSON LOGO]

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November 14, 2005

VIA EDGAR

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: Liquidity Services, Inc.
Registration Statement on Form S-1

Ladies and Gentleman:

Enclosed for filing on behalf of Liquidity Services, Inc. (the "Company") in electronic format pursuant to Regulation S-T is a Registration Statement on Form S-1 under the Securities Act of 1933, as amended. The Registration Statement relates to the Company's proposed offering of shares of the Company's Common Stock having a proposed maximum aggregate offering price of \$86,250,000.

The filing fee of \$10,152 has been wired to the appropriate SEC account.

Please call the undersigned (202/637-5945) or Eun Ah Choi (202/637-3622) should you have any questions concerning the enclosed registration statement.

Sincerely,

/s/ Joseph E. Gilligan

Joseph E. Gilligan

cc: James M. Rallo, Chief Financial Officer
 Liquidity Services, Inc.
