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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2015 Liquidity Services Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Julie Davis, Senior Director of Investor Relations. Please proceed.

Julie Davis - *Liquidity Services, Inc. - Senior Director, IR*

Thank you, Whitley. Hello, and welcome to our Second Quarter Fiscal Year 2015 Financial Results Conference Call. Joining us today are Bill Angrick, our Chairman and Chief Executive Officer; Jim Rallo, our Chief Financial Officer and Treasurer; and Kathy Domino, our Chief Accounting Officer. We will be available for questions after our prepared remarks.

The following discussion or responses to your questions reflect management's views as of today, May 7, 2015, and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and in our filings with the SEC, including our most recent annual report on Form 10-K.

As you listen to today's call we encourage you to have our press release in front of you, which includes our financial results as well as metrics and commentary on the quarter. During this call, we will discuss certain non-GAAP financial measures.

In our press release and our filings with the SEC, each of which is posted on our website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. We also use certain supplemental operating data as a measure of certain components of operating performance, which we also believe is useful for management and investors. The supplemental operating data includes gross merchandise volumes and should not be considered a substitute for or superior to GAAP results.

At this time, I'd like to turn the presentation over to our CEO, Bill Angrick.

Bill Angrick - *Liquidity Services, Inc. - CEO*

Thanks, Julie. Good morning and welcome to our Q2 earnings call. I'll begin the session by reviewing our Q2 performance and then provide an update on key strategic initiatives. Next I'll turn it over to Kathy Domino for more details on the quarter. Finally, Jim Rallo will provide our outlook for the current quarter.

Liquidity Services reported Q2 results in line with our guidance on both the top and bottom line, led by a strong quarter in our retail industry and municipal government verticals and improved property mix in our federal government business, which offset softer results in our energy and industrial capital assets vertical.

We remain focused on profitable growth; and the steps we have taken to reset selected programs, while disruptive in the short term, are important to ensure proper returns on shareholder capital.

Year-over-year results through calendar 2015 will continue to reflect the loss of the rolling stock portion of our DOD contract and a termination of our Jacobs Trading subsidiary's Walmart contract.

During Q2, we generated cash flow from operating activities of $15.9 million, which is up over threefold from the prior-year period. Exiting Q2, our cash position has increased to $86.2 million, which provides a strong foundation to invest in our growth initiatives.

During the balance of fiscal year 2015 we will continue to execute our Liquidity One Transformation plan to drive long-term value for our customers, employees, and shareholders. We anticipate that the transition of legacy programs with key clients, coupled with our heavy investment in IT, product development, and marketing initiatives, will dampen our growth and earnings results in the near term.

Next, I'd like to update you on key business trends and initiatives coming out of Q2. First, we are still operating under the terms and pricing of our legacy DOD surplus contract. There still remain a number of unresolved operational and contractual details related to phasing in a new surplus contract and we are working together with our agency partner to prioritize and resolve all open items. We will continue to update shareholders as we conclude this phase of the process.

We would remind investors that our DOD business has seen significant changes in the volume and mix of property we handle, which has reduced sales values. Accordingly, our near-term outlook is somewhat muted pending the stabilization of this part of our business.

Second, our long-term growth strategy and investment program is focused on our commercial and municipal government business. During the quarter, our commercial sales team signed over 50 new clients and client programs, demonstrating strong market demand for our proven scalable reverse supply chain solution.

Our solution has been well received by market leaders in multiple sectors such as Home Depot, Black & Decker, General Motors, Pepsi, and Bechtel, to name a few. These clients are looking for superior scale, service, and results, and that is exactly what we provide them.

We also continue to expand our municipal government business, particularly in the Western United States and Canada, signing over 200 new agency clients during the quarter.

Trends in our capital assets business reflect the fact that this is a more lumpy business and there has been some slowdown in transaction volume due to the drop in energy prices. We continue to focus on penetrating existing accounts with more services and more locations around the globe and adding new clients in all of our key industry verticals. We believe continued investment in our global sales and marketing organization, software and analytics tools, and marketplace solution will result in more clients seeking to modernize and transform their investment recovery function.

In support of our market leadership, we recently launched the new Liquidity Services brand. Our new brand consolidates the Company's marketplace brands under the Liquidity Services name for client interactions and coincides with our Liquidity One Transformation program to provide commercial clients with a singular and superior experience when they engage Liquidity Services.

Our new brand represents our transformation to a unified and integrated enterprise that solves our clients' needs for virtually any asset type in any location. We are creating a better future for how surplus assets are managed, valued, and sold.

Our new tag line, a better future for surplus, reflects our commitment to raise the level of our own performance and, in doing so, elevate what client organizations should expect in the reverse supply chain industry.

Finally, we continue to execute on our Liquidity One Transformation initiative. This investment program is focused on the consolidation of best-in-class processes and capabilities into a singular platform to increase our scalability and efficiency as an integrated global business.

During Q2, we deployed a new CRM system within our capital assets group, established a global sales operations center of excellence in process, deployed the first release of our client lead scoring process, and launched our new corporate website with our new collateral and company logo.

We continue to expand utilization and adoption of our data warehouse to support internal and client reporting needs in the management, valuation, and sale of assets.

In some cases, we have invited our customers to partner with us and participate in our research and development efforts so they can directly benefit from our innovations. For example, for several existing manufacturer clients, we have reengineered their entire reverse supply chain process, including with external partners, using selected features of our next-generation technology platform.

The result to the client is improved control over their brand reputation in the secondary marketplace, increased financial recovery, reduced costs, and faster time to cash.

In summary, we are delivering the right capabilities to enable superior service, scale, and results for our customers. We are confident we have the right team and strategic actions to delight customers and create a more diversified, scalable business that creates continued growth and value for long-term owners.

Now let me turn it over to Kathy for more details on Q2 results.

Kathy Domino - *Liquidity Services, Inc. - Chief Accounting Officer*

Thanks, Bill. This quarter we exceeded our guidance in adjusted EBITDA and were slightly above the midpoint of guidance on GMV and adjusted EPS due to a strong performance in our commercial retail marketplaces as we benefitted from our seasonally high period.

Our state and local government marketplace saw steady growth as well through our continued penetration into the Western United States and Canada. We were also awarded a second follow-on contract with the DOD, extending the current surplus contract for an additional six months base term with three 30-day renewal option periods.

Next, I will comment on our second quarter results. Total GMV was $189.4 million.

GMV in our GovDeals, or state and local government marketplace, increased to $45.1 million, or 16.2%, as we continued to add new clients, bringing total clients to over 7,500 out of a potential 88,000 in the highly fragmented state and local government market.

GMV in our commercial marketplaces decreased to $102.5 million, or 23.2%, principally as a result of a decrease in our capital assets marketplaces as a result of low oil prices in the energy vertical and seasonally low periods in the manufacturing and transportation verticals.

GMV in our DOD surplus marketplace decreased to $26.7 million, or 30.7%, as a result of the mix change in property flow from the DOD to lower-value products and the cessation of sales of rolling stock.

GMV in our DOD scrap marketplace decreased to $15.1 million, or 8.1%, as a result of decrease in property flow from the DOD. As sales of DOD scrap have become less material, fluctuations in commodity prices are not materially affecting our financial performance.

Total revenue was $102.9 million.

Technology and operations expenses decreased 14.9% to $24.7 million, primarily due to decreases in staff and temporary wages, which primarily resulted from our recent business realignment initiative and decreases in warehouse expenses as our inventory balance has declined, resulting in lower storage costs.

As a percentage of revenue, technology and operations expenses increased to 24% from 22.6%, primarily as a result of a decrease in revenue.

Sales and marketing expenses increased 3.3% to $10.8 million, which is not significant. As a percentage of revenue, sales and marketing expenses increased to 10.5% from 8.1%, primarily as a result of the decrease in revenue.

General and administrative expenses decreased 9.1% to $11.4 million, primarily due to our recent business realignment initiative. As a percentage of revenue, general and administrative expenses increased to 11.1% from 9.7%, primarily due to the decrease in revenue.

Adjusted EBITDA of $8.6 million decreased 48.4%, primarily due to the decrease in our commercial capital asset marketplaces and product mix changes in our DOD surplus contract, as previously discussed.

Adjusted net income of $2.4 million decreased 71.1%.

Adjusted diluted earnings per share decreased 59.2% to $0.08, based on approximately 30 million diluted weighted average shares outstanding.

We continue to have a strong debt-free balance sheet. At March 31, 2015, we had a cash balance of $86.2 million, which included current assets of $172.9 million, total assets of $343.2 million, and $93.4 million in working capital.

Capital expenditures during the quarter were $3.5 million. We expect capital expenditures to be between $8 million to $9 million for fiscal 2015. I will now turn it over to Jim for the outlook on the next quarter.

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

Thanks, Kathy. We will continue to make significant investments to further serve our selling clients and buying customers through fiscal year 2016, which we expect will drive long-term growth resulting in our commercial business having a more prominent role in driving both top- and bottom-line growth.

We realize that during this transition we will not be operating at full efficiency. However, based on feedback from our customers and team members, we are very confident that these investments in our future will result in improved sales performance, a superior customer experience, and a more efficient, scalable operational platform to support our next phase of growth and value creation.

We will aggressively pursue efficiencies in our operations. As we deliver our newly developed systems and marketplace platforms during this transition phase, consolidating results will be less indicative of our progress.

Next, I would like to comment on our approach to future guidance. Fiscal year 2015 will be a transition year for Liquidity Services as we reset our legacy DOD and Walmart Jacobs Trading business while funding our Liquidity One Transformation program. Forecasting results for the full year is very challenging as our DOD business has seen significant changes in the volume and mix of property we handle, which has reduced sales values and increased costs.

Additionally, investments in our Liquidity One Transformation program will vary throughout the year.

In light of these factors, we will continue to provide shareholders and the investment community with financial guidance on a quarterly basis.

Our scrap contract with the Department of Defense includes an incentive feature which can increase the amount of profit-sharing distribution we receive from 23% up to 25%. Payments under this incentive feature are based on the amount of scrap we sell for the DOD to small businesses during the preceding 12 months as of June 30 of each year. We are eligible to receive this incentive in each year of the term of the scrap contract and have assumed, for purposes of providing guidance regarding our projected financial results for the third quarter of fiscal year 2015, that we will again receive this incentive payment.

Management is providing the following guidance for the next fiscal quarter -- we expect GMV for the fiscal third quarter of 2015 to range from $175 million to $200 million.

We expect adjusted EBITDA for the fiscal third quarter of 2015 to range from $4 million to $6 million.

For the fiscal third quarter of 2015 we estimate adjusted earnings per diluted share to range from $0.05 to $0.10. This guidance assumes that we have an average fully diluted number of shares outstanding for the quarter of 30.2 million and that we will not repurchase shares of the approximately $5.1 million yet to be expended under the share repurchase program.

Our guidance, adjusted EBITDA, and diluted EPS for (1) acquisition costs, including transaction costs and changes in earned-out estimates and impairment of good will and long-lived assets; and (2) for stock-based compensation costs, which we estimate to be approximately $3.5 million to $4 million for the fiscal third quarter. These stock-based compensation costs are consistent with fiscal year 2014.

We will now answer any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Kurnos, The Benchmark Company.

Dan Kurnos - *The Benchmark Company - Analyst*

Great, good morning. Thanks for taking my questions. Bill, just a couple high-level questions for you as we go through this transition process. First off, you did mention in the press release that there were (inaudible) new partner additions -- just love to get a little bit of color around some of the verticals there and what you're targeting.

And if the transition process you're looking to focus on specific areas, one versus the other.

And then also, as we go through this transition process, maybe if you could talk a little bit about the -- maybe give a little bit of color about the evolution of the buyer base, if that's changed at all. Obviously you guys do a good job providing us some metrics, but it would be great to hear sort of how you guys think about the expansion of the buyer base and sort of the type of new buyer that you're attracting. Thanks.

Bill Angrick - *Liquidity Services, Inc. - CEO*

Sure. We have worked hard over the last three years to have capabilities to serve every major industry vertical that depends on capital equipment to manage their business model. As a result, client focus includes energy supply chain. We have a lot of active clients -- over 300 clients -- in that vertical. We continue to add clients in that sector and we're in a lot of conversations with how these energy companies want to pivot in light of reduced economic activity in that supply chain. That includes oil exploration companies and production companies and downstream distributors of energy.

So it's true that with the change in energy prices, some of these end users who buy in our platform have remained relatively frozen. And as trends become clear on where these prices are headed, we believe we're going to see some uptick in activity.

In addition to the energy market, we have strong penetration in all the sort of global manufacturing sectors -- so consumer packaged goods, pharmaceutical and biotech and health care, automotive. Certainly increasing investment cycles in automotive as the consumer responds, and we've had pretty good sell-through in that channel.

Additionally, the electronics manufacturing space is a strength for us; we made an investment to have a presence in the Asia-Pacific region. That has provided outstanding capabilities to serve both buyers -- end-user buyers -- and global manufacturing footprints of large sellers.

Equally, we have made an increasing outreach in the retail sector and the OEMs who supply products to the retail supply chain. There are a number of these global manufacturers who are looking to improve the way their products, their branded products, are tracked and sold in the secondary market.

Many of these OEM clients are responsible for taking back product in return-to-vendor provisions of their supply agreements. We want to be able to manage that process for them. And we've bundled our multi-channel sales capabilities with logistics support, refurbishing capabilities, and outstanding sort of buyer-facing customer service.

And the studies we've done have shown by managing sales in a superior way in the secondary marketplace and controlling those sales, that actually helps the client's core brand in their core distribution channels.

So a lot of industry diversification occurring over the last several years. I'd also point out that we have a strong capability in the transportation vertical. We sell lots of rolling stock for our clients and we have been contacted and we've responded by making [note] that fleet management and transportation equipment sale capability a part of our offering for many of these clients.

So a lot of industry diversification and acceptance.

On the buyer side, we continually invest in growing our buyer base. We target and reach end users of the high-valued material equipment that we sell. End users increasingly are adopting online sourcing techniques to identify, find, and buy assets on our platform. So our investment in digital marketing and our digital marketplace strategies is aligned with the macro trend around end-user buyers and how they're procuring equipment.

We also reach a number of small business -- in many cases entrepreneurs who buy less-than-new material equipment inventory from us. They test, refurbish, and look to make a profit by reselling that equipment.

In addition, because of our growth in sales around the world, we continue to focus on international buyers. And one of the key areas of investment in our Liquidity One platform is a truly multilingual, multinational platform capability that will serve these international buyers wherever they reside.

Dan Kurnos - *The Benchmark Company - Analyst*

Okay, great. And then, just shifting over to guidance a little bit here. I just want to get a sense from you in terms of maybe some clarification on the June GMV guidance. Obviously a little bit below where I think most people were expecting.

I just want to get some color on how much of that is maybe either related to Walmart -- because it looks like most of the down side is in the commercial segment. So how much of it's from Walmart, how much of it is from a continued weakness in capital assets and/or lumpiness in that business, as Jim mentioned.

And how much of it is -- and Bill, I know we talked about this before and it wasn't really a pressing point, but you did mention that you've been resetting some programs. I don't want to put words in your mouth and call it intentional churn, but it sounds like you're willing to take a little bit of disruption for higher profitability. If that maybe means scaling back certain SKUs or verticals, that could be on the table. So just how we think about those three things as it relates to guidance going forward. Thanks.

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

Sure. Dan, it's Jim. Let me take that question. I think when you look at the June quarter (1) you've got some seasonality effects going on. Obviously in the -- as we reported in the results and Bill's comments, the December quarter is a seasonally low quarter for our capital asset business, our commercial capital asset business. Most of the companies we work with are December 31 year-end companies and there's just a lot going on in that quarter. March picks up a little bit but not much.

And then when you look at the retail business, the retail business is strong in the December quarter; it really picks up in the March quarter. And then retail drops off; you start to get to a lull. So what you really have is you have sort of different verticals within the Company that are balancing out.

And so when you look at the guidance for the June quarter, it's very similar to the March quarter but that's because when you look at the different verticals we're in, again, you've got some up and some down.

As far as specific programs or rebalancing, if you would, in your words, that has been going on for some time. There's not a material amount of that going on at this point. We've got a great set of clients. We'll continue to serve those clients and are focused on growing with our clients that we currently have as well as adding new clients, as Bill indicated. We signed up over 50 programs this quarter alone.

So I think that the June quarter has different dynamics going on than we had in the March quarter and the December quarters. The one thing we do have in the June quarter, obviously, is the scrap incentive. I would anticipate that being somewhere around $1 million or so in this quarter, in the June quarter. And again, that is normal for us every year.

Dan Kurnos - *The Benchmark Company - Analyst*

Great. Thanks for the color, Jim. Just last one from me, just on the expense side. Just trying to sort of figure out where the buckets fall here. I mean, your tech and opps spend was actually down $2 million quarter over quarter although it was up call it 130 basis points, percentage of revenue year over year. But down on a dollar basis $4.5 million year over year while G&A ticked up and marketing was kind of consistent sequentially.

So just how should we think of where the major buckets of expenses are going to fall? And are you through at least the initial phases of heavy tech spend? Does it ramp significantly in the back half of the year? And just how we think about that. Thank you.

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

So on the expense side, Dan, what you're seeing when you're looking at the year-over-year comparisons is the effect of our realignment initiative that took place effective October 1. So we've gained a lot of efficiencies across the Company through various aspects of our realignment program, again, that rolled out October 1 of this year. That's why you're seeing the technology and operations line down. That didn't just include employees, it included temporary staffing, it included facilities. It was really all aspects of the business to try to gain efficiencies as we move forward as a company.

So that's, again, why you're seeing the decreases in expenses. Obviously, as a percentage of revenue, revenue's down a little bit as we talked about in our comments. So on a percentage basis, you don't see quite the same positive effect, obviously, as you do in the absolute numbers.

As far as tech expenses go, we would expect some ramp up at the end of this year, but not significant. So I'm not talking about $2 million or $3 million of additional tech spend or anything like that; I think it would be sub-$1 million range in the next quarter or two. We probably expect a higher ramp potentially in fiscal year -- the beginning of fiscal 2016 as we continue to ramp our initiative to roll out all of our LOT projects at the beginning of fiscal year 2017.

Dan Kurnos - *The Benchmark Company - Analyst*

So Jim, just to summarize that, would it be fair to say that the expense ramp that you're seeing from your new initiatives have been mostly offset by the efficiencies that you've gained already from the transformation?

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

Yes, I'd say it's a fair statement, Dan.

Dan Kurnos - *The Benchmark Company - Analyst*

Okay, perfect. Thanks, guys; appreciate all the color.

Operator

Shawn Milne, Janney Capital Markets.

Shawn Milne - *Janney Capital Markets - Analyst*

Thanks for taking my questions. Maybe just to start, going back to the last question on tech spend -- maybe just a clarification in my mind. I guess the number I was thinking was about $9 million in spend for technology around Liquidity One sort of rollout this year. I don't know if you maybe -- maybe I missed it. Did you quantify how much was going to carry into fiscal 2016?

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

Yes. Sorry, Shawn. I mean, I would expect that ramp to carry in fiscal year 2016 and then come down dramatically in fiscal year 2017. As I explained with Dan, we've got -- we've made up a lot of that additional expense through our realignment program so it's been -- I don't want to say completely net neutral this year, but the impact of the additional tech spend has been made up by operational efficiencies around the Company.

Shawn Milne - *Janney Capital Markets - Analyst*

Is the $9 million roughly the same in both years?

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

I think at this point it's difficult to put a pin in a number for next year. I would say that's certainly our target moving forward. But I think we'll have better color on that in the next few quarters.

Shawn Milne - *Janney Capital Markets - Analyst*

Okay. And I might have missed it -- I was on another call -- but you said the retail vertical was up. Did you give a growth rate? And I mean, if it was up on top was that excluding the Walmart, or was it up even with the loss of Walmart?

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

I'd say it was -- the retail vertical was not up if you include the loss of Walmart. If you exclude the loss of Walmart, it was about the same. I think the retail sector is one where, as Bill indicated before, we have done what I would say -- as part of our realignment program we did drop a few of our clients on the lower-end side where we just saw that the programs were very difficult to make a margin on.

We have transitioned them over to an in-house solution or a self-service solution with us or something else. So it was a smooth, again, transition. But on the top-line GMV, you're seeing a decrease from that.

The other thing that's happened is we've picked up our service revenue. So one of the initiatives we have going on, Shawn, is we're providing more services for our clients and billing for those services rather than just selling goods for our clients. I don't want to give the client's name, but in one case we switched from a program where we were basically selling product for them to now we are refurbishing that product and then providing it back to them and they're selling it back through their own A channels.

It's been a very successful program for both ourselves and the client and, again, that refurbishing capability is something that we've put throughout the organization over the last two years.

So you're seeing a little bit of shift as well just in the additional service capabilities that we have in the organization.

Shawn Milne - *Janney Capital Markets - Analyst*

Okay. And then lastly, just Bill, maybe one for you. You guys obviously can't control oil prices, but I don't know if -- maybe it's just the lower pricing impact on GMV, if there's still activity in that energy vertical.

But more broadly, when you roll out the Liquidity One plan, especially with the new CRM and hopefully better processes within the sales force, etc., do you think that can smooth out some of the lumpiness in commercial capital assets? Or do you believe you're still going to just see quarter-to-quarter variations based on certain levels of demand in each vertical?

Bill Angrick - *Liquidity Services, Inc. - CEO*

I think you're always going to have some inherent lumpiness within client accounts. These are massive sort of supply chains and individual plants, production lines, could very well be priced at multi-million dollars. I think we've sold up to an $18 million refinery.

So within accounts, it is the nature of the industrial client to have a wide range of value at any given period. However, this is a global client portfolio. It's a cross-industry portfolio. And we believe that we are relatively unknown on a global basis within this market. And we are investing heavily in our sales and marketing function to significantly deepen and widen the number of clients using our platform. And that, Shawn, will seek to smooth out the peaks and the valleys as we move through time.

In addition, we are providing asset management software and tools and services that will give us more visibility into these clients' supply chains to take out assets on a more regular basis, such as transportation equipment. So fleet business is more regularly planned and scheduled and would seek to be a much more recurring type of asset category relative to some of the other asset categories. And we've had very good uptake on our fleet management and sales capabilities in different verticals such as consumer packaged goods, beverage business, and the energy vertical.

So those actions together, we believe over time allow us to grow GMV year on year notwithstanding that within company accounts you're going to have some high-value assets one quarter that won't be repeated.

Shawn Milne - *Janney Capital Markets - Analyst*

Okay. Thinks, Bill; good luck to you.

Operator

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research Associates - Analyst*

Hi. Good morning, everyone. Most of the questions have been answered, but excited to see 50 new clients come on board from signing, Bill. But could you tell us, were those new clients competitive takeaways, or is that frontier new business that you're transforming to an outsourced disposition platform like yourself?

Bill Angrick - *Liquidity Services, Inc. - CEO*

That's a very good question because when you look at the global market opportunity, the majority of these assets are managed through in-house investment recovery sales practices and teams. So in those cases, we're in a missionary sales role defining a new way to manage the process with tools that these clients lack to track the information internally. In some cases redeploying the assets prior to them entering or sales channel.

So in most cases, we're replacing or complementing in-house sales strategies and teams. That's why our assets on software is extremely important, and our ability to project-manage and really understand the client's strategy and be part of that strategy in the reverse supply chain.

In some cases, we would replace traditional live auctions or traditional direct sales to dealers. So the channel of online sales, webcast sales, is replacing negotiated one-off sales to dealers or live events through traditional auctioneers.

But I think the broad trend is for these companies to seek to raise the level of performance in cost areas such as how they manage and dispose of idle assets. And in come cases there's a cyclicality that affects these businesses so that they need to move these assets off the balance sheet because they want to free up working capital.

So we're in a position to be there 24/7, 365 days just to help them through that process.

Gary Prestopino - *Barrington Research Associates - Analyst*

Okay. So as I read your press release and what you've talked about, you're saying that a lot of this is attributable to heavy investment in sales and marketing. And this really isn't attributable to changes under the Liquidity One Transformation because that hasn't really occurred -- is that kind of a correct assumption?

Bill Angrick - *Liquidity Services, Inc. - CEO*

It is correct insofar as a lot of the software development and marketplace experience has not transitioned to the next-generation platform. However, as you would note by looking at our corporate website, we are fully living and executing under the new brand architecture and message. And that's a very important deliverable under the LOT program because it positions the Company as a single global provider.

And in fact our teams are selling that way, cross-selling various services to clients as one company, and that can be across geographic regions, across service areas. And that is new, Gary. And it's early days but we feel there's a lot more productivity that comes from housing our entire solution under the Liquidity Services name and executing on that as a global sales organization.

One of the steps along the way in Q2 was launching a global sales operation function and process to help improve productivity on the sales side. So that's a process-driven innovation as part of the program. The technology pieces will be coming after that.

Gary Prestopino - *Barrington Research Associates - Analyst*

That's great news. Would you ever be in a position just in terms of -- in talking about new account signings -- to talk about what a range of potential GMV would be coming from these new accounts?

Bill Angrick - *Liquidity Services, Inc. - CEO*

What I think we would do is we'd be providing case study examples that show real results for real clients, which would give an imprimatur around what the GMV opportunity is; that's how we would handle that.

Gary Prestopino - *Barrington Research Associates - Analyst*

Okay, thanks a lot.

Operator

(Operator Instructions) Rohit Kulkarni, RBC.

Rohit Kulkarni - *RBC Capital Markets - Analyst*

Hey, great; thanks. Two questions. One on the branding campaign. Sorry if you already answered this -- I joined in a little bit late. What are your expectations from this campaign? I see that there are a lot of new things on your website. Have you hired an agency? How much are you willing to spend in this branding campaign?

And generally, on the [outside] we would expect the campaign to kick in full gear as the new product offerings or the integrated product offerings with Liquidity One are kind of ready to go to market. So kind of having the branding campaign come ahead of that. So how are you setting your expectations from returns on how the branding campaign would kind of be a success or kind of be meeting expectations?

And then, I have a follow-up on DOD surplus.

Bill Angrick - *Liquidity Services, Inc. - CEO*

Sure. Well, the branding should be a business impact today because we have a global sales organization interacting with clients in any major industry vertical you can think of. So it's important for them to be able to articulate what our capabilities are today, which are still quite formidable, and where we are going in the future.

And that team has been well educated and equipped to deliver on our future vision of superior service, scale, and results. And that is -- the embodiment of the brand is the client experience that they are enjoy the results they're enjoying today.

In terms of our commitment to building a strong sales and marketing function, we have invested in internal talent and teams to breathe new life into the brand and the rollout process, which is something that we worked hard on over the last 12 months.

But also to sustain the brand through a number of actions which, as you would imagine in enterprise sales, is often about thought leadership. It's about showing real proof points and case studies of how we deliver that superior scale, service, and results. And that's an investment that is a multi-year investment. And it's an in-house investment.

And so what we expect is that over time more and more of our clients will be able to showcase their programs and experiences working with Liquidity Services, and that will be reinvesting in the message.

In terms of expectations, we are investing ahead of -- ahead of -- the growth that we would expect to come out of launching a new brand. And that's the way it always is; you're going to invest to deliver growth in the future. And we will continue to monitor that and share that.

So the team is focused on capabilities -- capabilities -- that can drive innovation for this market sector and drive ultimately value in these reverse supply chain activities. And that is something that can be quite contagious within a company when you have that scalable process that they can repeat and track and manage.

And so that's what we think about the marketing investment.

Rohit Kulkarni - *RBC Capital Markets - Analyst*

Okay, great. And then a quick clarification on surplus, now that it would probably go through -- I'm counting six months from February fast in my mind -- September-ish time frame. What are your kind of expectations from that?

And what does it say that -- it'll be almost 18 months since DOD started this process and still you continue to support them. What does that say about kind of the new partner that they may have decided to go with? And any inferential likelihood for you to still -- this time next year still continue to have the DOD upside from surplus?

Jim Rallo - *Liquidity Services, Inc. - CFO, Treasurer*

Sure, Rohit; let me take that. I think a couple of things. You had a couple of good questions there about surplus. The new partner has rolled out their business model and operations and we are no longer receiving the rolling stock as part of the new award.

Obviously, what has been delayed is -- I would say is the change in dynamics under the other surplus product flow, primarily because the DOD is working on some operational things internally. Once they get those things in line, then we can sit down and understand what the expectations are for ourselves and them and figure out how we're going to roll it out and the timing of that rollout.

So we don't expect to see any significant changes this fiscal year at this point in time. As you know, we've got a six-month extension on the old surplus contract and then three one-month renewals after that. So we would expect, at this point in time, based on what we know, for the terms of the original contract -- what we refer to as the third version or CV3 version contract -- to roll out through this fiscal year.

What happens next year at this point is a little unclear because, again, we're waiting on the -- what I would say is the final detailed operational specs from the Department of Defense. Once we have those and understand the needs of our client, then we'll be prepared to, I think, update the Street. So I would hope to have more color on that probably not next quarter but the quarter after that.

As far as the DOD as a client, I mean, we've got a longstanding relationship with the Department of Defense. We provide a high level of service for them and we certainly would expect to continue with them as a client for a while.

The last thing I want to say about the contract is that the mix has changed dramatically, Rohit. So we've got a lot of what I would say is smaller items of lower value that are moving through that contract. That's caused, certainly, swings in the profitability of the contract as well as just top-line sales and inefficiencies of the contract.

And that is normal and we've been running this business since 2001. We've seen many times over the last decade-plus of changes in the mix. So we're at a time right now where the property mix is what I would say, again, a lot of lower-value items. processing those items. And the mix will change again in the future. So I think that at this point in time, you're just seeing the effects of that running through the financial statements.

Rohit Kulkarni - *RBC Capital Markets - Analyst*

Okay, great. And good to see you guys [bring] a good quarter on (inaudible).

Operator

There are no further questions in queue. I will now turn the call back to over to Ms. Julie Davis. Please proceed.

Julie Davis - *Liquidity Services, Inc. - Senior Director, IR*

Thank you. That concludes our time for today's call. We thank you for you participation. We will be available for phone follow-up. Thank you and have a nice day.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation; you may now disconnect. Have a great day.
