

B. Riley Financial, Inc.  
Form 10-Q  
November 09, 2015

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark  
One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015  
Or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission File Number 000-54010**

**B. RILEY FINANCIAL, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**27-0223495**  
(I.R.S. Employer Identification No.)

**21860 Burbank Boulevard, Suite 300 South**

**91367**

**Woodland Hills, CA**

(Address of Principal Executive Offices) (Zip Code)

**(818) 884-3737**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 6, 2015, there were 16,321,452 shares of the Registrant's common stock, par value \$0.0001 per share, outstanding.

**B. Riley Financial, Inc.**

**Quarterly Report on Form 10-Q**

**For The Quarter Ended September 30, 2015**

**Table of Contents**

|   | <u>Page</u> |
|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |             |
| <u>Item 1. Unaudited Financial Statements</u>   | 3           |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>   | 3           |
| <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014</u>                  | 4           |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014</u> | 5           |
| <u>Condensed Consolidated Statements of Equity (Deficit) for the nine months ended September 30, 2015 and 2014</u>                      | 6           |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014</u>                            | 7           |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 8           |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                                    | 26          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 41          |
| <u>Item 4. Controls and Procedures</u>  | 41          |
| <b><u>PART II. OTHER INFORMATION</u></b>  |             |
| <u>Item 1. Legal Proceedings</u>  | 42          |
| <u>Item 1A. Risk Factors</u>  | 42          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 59          |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 59          |

|  |    |
|--|----|
| <u>Item 4. Mine Safety Disclosures</u> | 59 |
| <u>Item 5. Other Information</u>       | 59 |
| <u>Item 6. Exhibits</u>                | 59 |
| <u>Signatures</u>                      | 60 |

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**B. RILEY  
FINANCIAL,  
INC. AND  
SUBSIDIARIES**

Condensed  
Consolidated  
Balance Sheets  
(Dollars in  
thousands, except  
par value)

|   | <b>September 30,<br/>2015<br/>(Unaudited)</b> | <b>December 31,<br/>2014</b> |
|---|---|------------------------------|
| <b>Assets</b>                                   |   |                              |
| Current assets:                                 |   |                              |
| Cash and cash equivalents                       | \$45,922                                      | \$21,600                     |
| Restricted cash                                 | 124   | 7,657                        |
| Securities owned, at fair value                 | 17,548  | 17,955                       |
| Accounts receivable, net                        | 10,069  | 10,098                       |
| Advances against customer contracts             | 2,789   | 16,303                       |
| Due from related parties                        | 3,703   | —                            |
| Goods held for sale or auction                  | 39  | 4,117                        |
| Deferred income taxes                           | 4,645   | 6,420                        |
| Prepaid expenses and other current assets       | 1,351   | 3,795                        |
| Total current assets                            | 86,190  | 87,945                       |
| Property and equipment, net                     | 651   | 776                          |
| Goodwill  | 34,528  | 27,557                       |
| Other intangible assets, net                    | 4,880   | 2,799                        |
| Deferred income taxes                           | 15,505  | 19,181                       |
| Other assets                                    | 615   | 732                          |
| Total assets                                    | \$142,369                                     | \$138,990                    |
| Liabilities and Equity                          |   |                              |
| Current liabilities:                            |   |                              |
| Accounts payable and accrued liabilities        | \$17,551                                      | \$12,233                     |
| Due to related parties                          | —   | 213                          |
| Auction and liquidation proceeds payable        | —   | 665                          |
| Securities sold not yet purchased               | 6,481   | 746                          |
| Mandatorily redeemable noncontrolling interests | 2,921   | 2,922                        |

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|   |           |           |
|---|-----------|-----------|
| Asset based credit facility   | —         | 18,506    |
| Revolving credit facility   | 70        | 56        |
| Notes payable   | —         | 6,570     |
| Contingent consideration- current portion   | 1,218     | —         |
| Total current liabilities   | 28,241    | 41,911    |
| Contingent consideration, net of current portion  | 1,129     | —         |
| Total liabilities   | 29,370    | 41,911    |
| Commitments and contingencies   |           |           |
| B. Riley Financial, Inc. stockholders' equity:  |           |           |
| Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued   | —         | —         |
| Common stock, \$0.0001 par value; 40,000,000 shares authorized; 16,311,452 and 15,968,607 issued and outstanding as of September 30, 2015 and December 31, 2014, respectively | 2         | 2         |
| Additional paid-in capital  | 116,423   | 110,598   |
| Retained earnings (deficit)   | (4,323)   | (12,891)  |
| Accumulated other comprehensive loss  | (935)     | (648)     |
| Total B. Riley Financial, Inc. stockholders' equity   | 111,167   | 97,061    |
| Noncontrolling interests  | 1,832     | 18        |
| Total equity  | 112,999   | 97,079    |
| Total liabilities and equity  | \$142,369 | \$138,990 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(Unaudited)****(Dollars in thousands, except share data)**

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2015</b>               | <b>2014</b> | <b>2015</b>              | <b>2014</b> |
| Revenues:  |                           |             |                          |             |
| Services and fees  | \$21,150                  | \$20,669    | \$82,176                 | \$48,001    |
| Sale of goods  | 122                       | 5           | 10,588                   | 9,273       |
| Total revenues   | 21,272                    | 20,674      | 92,764                   | 57,274      |
| Operating expenses:  |                           |             |                          |             |
| Direct cost of services                                    | 5,213                     | 5,135       | 20,530                   | 17,001      |
| Cost of goods sold   | —                         | 1,747       | 3,071                    | 10,811      |
| Selling, general and administrative expenses               | 12,782                    | 12,497      | 45,755                   | 30,481      |
| Restructuring charge                                       | —                         | 2,548       | —                        | 2,548       |
| Total operating expenses                                   | 17,995                    | 21,927      | 69,356                   | 60,841      |
| Operating income (loss)                                    | 3,277                     | (1,253)     | ) 23,408                 | (3,567)     |
| Other income (expense):                                    |                           |             |                          |             |
| Interest income  | 5                         | 3           | 10                       | 9           |
| Interest expense   | (64)                      | ) (53)      | ) (735)                  | ) (1,130)   |
| Income (loss) before income taxes                          | 3,218                     | (1,303)     | ) 22,683                 | (4,688)     |
| (Provision) benefit for income taxes                       | (600)                     | ) 387       | (8,060)                  | ) 1,795     |
| Net income (loss)  | 2,618                     | (916)       | ) 14,623                 | (2,893)     |
| Net income (loss) attributable to noncontrolling interests | 1,155                     | (48)        | ) 1,814                  | 86          |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$1,463                   | \$(868)     | ) \$12,809               | \$(2,979)   |
| Basic income (loss) per share                              | \$0.09                    | \$(0.05)    | ) \$0.79                 | \$(0.40)    |
| Diluted income (loss) per share                            | \$0.09                    | \$(0.05)    | ) \$0.79                 | \$(0.40)    |
| Cash dividends paid per share                              | \$0.20                    | \$—         | \$0.26                   | \$—         |
| Weighted average basic shares outstanding                  | 16,243,425                | 15,911,482  | 16,199,931               | 7,492,295   |
| Weighted average diluted shares outstanding                | 16,344,649                | 15,911,482  | 16,272,953               | 7,492,295   |

The accompanying notes are an integral part of these condensed

consolidated  
financial  
statements.

4



**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)****(Dollars in thousands)**

|  | Three Months<br>Ended<br>September 30,<br>2015 |         | Nine Months<br>Ended September<br>30,<br>2014 |           |
|--|--|---------|---|-----------|
| Net income (loss)  | \$2,618  | \$(916) | \$14,623                                      | \$(2,893) |
| Other comprehensive loss:  |  |         |   |           |
| Unrealized loss on available for sale securities, net of tax of \$4  | —  | (6 )    | —   | (6 )      |
| Change in cumulative translation adjustment                          | (279 )   | 37      | (287 )  | 17        |
| Other comprehensive loss, net of tax                                 | (279 )   | 31      | (287 )  | 11        |
| Total comprehensive income (loss)                                    | 2,339  | (885)   | 14,336  | (2,882)   |
| Comprehensive income (loss) attributable to noncontrolling interests | 1,155  | (48 )   | 1,814   | 86        |
| Comprehensive income (loss) attributable to B. Riley Financial, Inc. | \$1,184  | \$(837) | \$12,522                                      | \$(2,968) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Equity (Deficit)****(Unaudited)****(Dollars in thousands)**

|   | Preferred<br>Stock<br>Shares | Amount | Common Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Equity<br>(Deficit) |
|---|------------------------------|--------|------------------------|--------|----------------------------------|-----------------------------------|---|-----------------------------|------------------------------|
| Balance, January 1, 2014  | —                            | \$ —   | 1,500,107              | \$ —   | \$ 3,086                         | \$(6,611 )                        | \$ (638 )                                     | \$ 12                       | \$(4,151 )                   |
| Issuance of common stock on June 5, 2014 for cash, net of issuance costs of \$215               |                              |        | 10,289,300             | 1      | 51,232                           |                                   |   |                             | 51,233                       |
| Foregiveness of long-term debt on June 5, 2014 from the former Great American Group Members     |                              |        |                        |        | 18,759                           |                                   |   |                             | 18,759                       |
| Issuance of common stock for acquisition of B. Riley & Co. Inc. on June 18, 2014                |                              |        | 4,191,512              | 1      | 26,406                           |                                   |   |                             | 26,407                       |
| B. Riley Financial, Inc. common stock owned by B. Riley & Co. Inc. - cancelled upon acquisition |                              |        | (3,437 )               | —      | (29 )                            |                                   |   |                             | (29 )                        |
| Net loss for the nine months ended September 30, 2014   |                              |        |                        |        |                                  | (2,979 )                          |   | 86                          | (2,893 )                     |
| Unrealized loss on available for sale investments, net of tax benefit of \$4                    |                              |        |                        |        |                                  |                                   | (6 )  |                             | (6 )                         |
| Foreign currency translation adjustment   |                              |        |                        |        |                                  |                                   | 17  |                             | 17                           |
| Balance, September 30, 2014   | —                            | \$ —   | 15,977,482             | \$ 2   | \$ 99,454                        | \$(9,590 )                        | \$ (627 )                                     | \$ 98                       | \$ 89,337                    |
| Balance, January 1, 2015  | —                            | \$ —   | 15,968,607             | \$ 2   | \$ 110,598                       | \$(12,891 )                       | \$ (648 )                                     | \$ 18                       | \$ 97,079                    |

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|  |         |   |            |          |            |            |           |          |           |
|--|---------|---|------------|----------|------------|------------|-----------|----------|-----------|
| Issuance of common stock for acquisition of MK Capital Advisors, LLC and contingent equity consideration on February 2, 2015 | 333,333 | — | 4,657      |          |            |            | 4,657     |          |           |
| Issuance of common stock   | 3,296   | — | 35         |          |            |            | 35        |          |           |
| Vesting of Restricted stock  | 6,216   | — | —          |          |            |            | —         |          |           |
| Share based payments   |         |   | 1,133      |          |            |            | 1,133     |          |           |
| Dividends paid   |         |   |            | (4,241 ) |            |            | (4,241 )  |          |           |
| Net income for the nine months ended September 30, 2015  |         |   |            | 12,809   |            | 1,814      | 14,623    |          |           |
| Foreign currency translation adjustment  |         |   |            |          | (287 )     |            | (287 )    |          |           |
| Balance, September 30, 2015  | — \$    | — | 16,311,452 | \$ 2     | \$ 116,423 | \$(4,323 ) | \$ (935 ) | \$ 1,832 | \$112,999 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in thousands)**

|   | September 30, |            |
|---|---------------|------------|
|   | 2015          | 2014       |
| Cash flows from operating activities:   |               |            |
| Net income (loss)   | \$14,623      | \$(2,893 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:          |               |            |
| Depreciation and amortization   | 634           | 451        |
| Provision for credit losses   | 366           | 166        |
| Impairment of goods held for sale   | —             | 1,750      |
| Loss on disposal of fixed assets  | 7             | 77         |
| Share based payments  | 1,192         | —          |
| Effect of foreign currency on operations  | (363 )        | 78         |
| Non-cash interest   | 118           | —          |
| Deferred income taxes   | 5,451         | (1,865 )   |
| Income allocated to mandatorily redeemable noncontrolling interests and redeemable noncontrolling interests | 1,796         | 1,580      |
| Change in operating assets and liabilities:   |               |            |
| Accounts receivable and advances against customer contracts   | 13,177        | (110 )     |
| Lease finance receivable  | —             | 107        |
| Due from related party  | (3,916 )      | (111 )     |
| Securities owned  | 407           | (14,289)   |
| Goods held for sale or auction  | 52            | 9,062      |
| Prepaid expenses and other assets   | 9             | (675 )     |
| Accounts payable and accrued expenses   | 5,371         | (2,193 )   |
| Securities sold, not yet purchased  | 5,735         | 1,860      |
| Auction and liquidation proceeds payable  | (665 )        | 1,220      |
| Net cash provided by (used in) operating activities   | 43,994        | (5,785 )   |
| Cash flows from investing activities:   |               |            |
| Acquisition of MK Capital Advisors, LLC, net of cash acquired of \$49                                       | (2,451 )      | —          |
| Purchases of property and equipment   | (196 )        | (143 )     |
| Proceeds from sale of property and equipment  | 4             | —          |
| Decrease in note receivable - related party   | —             | 1,200      |
| Cash acquired in acquisition of B. Riley & Co. Inc.   | —             | 2,668      |
| Decrease (increase) in restricted cash  | 7,533         | (3,203 )   |
| Net cash provided by investing activities   | 4,890         | 522        |
| Cash flows from financing activities:   |               |            |

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|   |          |          |
|---|----------|----------|
| Repayment of asset based credit facility                        | (18,506) | (5,710 ) |
| Proceeds from revolving line of credit                          | 14       | 92       |
| Proceeds from note payable - related party                      | 4,500    | —        |
| Repayment of note payable - related party                       | (4,500 ) | —        |
| Repayment of notes payable and long-term debt                   | —        | (32,010) |
| Proceeds from issuance of common stock                          | —        | 51,233   |
| Dividends paid  | (4,241 ) | —        |
| Payment of employment taxes on vesting of restricted stock      | (24 )    | —        |
| Distribution to mandatorily redeemable noncontrolling interests | (1,797 ) | (1,494 ) |
| Net cash (used in) provided by financing activities             | (24,554) | 12,111   |
| Increase in cash and cash equivalents                           | 24,330   | 6,848    |
| Effect of foreign currency on cash                              | (8 )     | (173 )   |
| Net increase in cash and cash equivalents                       | 24,322   | 6,675    |
| Cash and cash equivalents, beginning of period                  | 21,600   | 18,867   |
| Cash and cash equivalents, end of period                        | \$45,922 | \$25,542 |
| Supplemental disclosures:                                       |          |          |
| Interest paid   | \$303    | \$1,389  |
| Taxes paid  | \$976    | \$2      |

The accompanying notes are an integral part of these condensed consolidated financial statements.

## **B. RILEY FINANCIAL, INC. AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except share data)**

#### **NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

##### *Organization and Nature of Operations*

B. Riley Financial, Inc. (formerly known as Great American Group, Inc.) and its subsidiaries (collectively the “Company”) provide (i) asset disposition, valuation and appraisal and capital advisory services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms throughout the United States, Canada, and Europe and (ii) following the Company’s acquisition of B. Riley & Co. Inc. (“BRC”) on June 18, 2014 and MK Capital Advisors, LLC (“MK Capital”) on February 2, 2015, as more fully described below, investment banking, corporate finance, research, wealth management, sales and trading services to corporate, institutional and high net worth clients.

With the acquisition of BRC in 2014, the Company now operates in three operating segments: capital market services (“Capital Markets”), auction and liquidation services (“Auction and Liquidation”), and valuation and appraisal services (“Valuation and Appraisal”). In the Capital Markets segment, the Company provides investment banking, corporate finance, research, sales and trading services to corporate, institutional and high net worth clients. In addition, with the acquisition of MK Capital Advisors, LLC (“MK Capital”) in 2015, the Company also provides wealth management services in the Capital Markets segment. In the Auction and Liquidation segment, the Company provides auction and liquidation services to help clients dispose of assets and capital advisory services. Such assets include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property. In the Valuation and Appraisal segment, the Company provides valuation and appraisal services to clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs.

The Company was incorporated in Delaware on May 7, 2009 as a wholly-owned subsidiary of Alternative Asset Management Acquisition Corp. (“AAMAC”). The Company was formed as a “shell company” for the purpose of acquiring Great American Group, LLC (“GAG, LLC”), a California limited liability company. On July 31, 2009, the members of GAG, LLC (the “Great American Members”) contributed all of their membership interests of GAG, LLC to the Company (the “Contribution”) in exchange for 528,000 shares of common stock of the Company and a subordinated unsecured promissory note in an initial principal amount of \$60,000 issued in favor of the Great American Members and the phantom equityholders of GAG, LLC (the “Phantom Equityholders”, and together with the Great American Members, the “Contribution Consideration Recipients”) (see Note 8). Concurrently with the Contribution, AAMAC merged with and into AAMAC Merger Sub, Inc. (“Merger Sub”), a subsidiary of the Company (the “Merger” and,

together with the Contribution, the “Acquisition”). As a result of the Acquisition, GAG, LLC and AAMAC became wholly-owned subsidiaries of the Company. The Acquisition has been accounted for as a reverse merger accompanied by a recapitalization of the Company.

### ***Reverse Stock Split***

On June 3, 2014, the Company completed a 1 for 20 reverse split of its common stock. The reverse split reduced the Company’s then outstanding shares of 30,002,975 to 1,500,107. Fractional shares from the reverse split were paid in cash based on the closing price of the Company’s common stock on June 2, 2014. The share amounts and earnings per share amounts in the Company’s consolidated financial statement have been adjusted as if the reverse split occurred on January 1, 2014.

### ***Private Placement***

On June 5, 2014, the Company completed a private placement of 10,289,300 shares of common stock at a purchase price of \$5.00 per share (the “Private Placement”). There were fifty-three accredited investors (the “Investors”) that participated in the Private Placement pursuant to the terms and provisions of a securities purchase agreement entered into among the Company and the Investors on May 19, 2014. At the closing of the Private Placement on June 5, 2014, the Company received net proceeds of approximately \$51,233. On June 5, 2014, the Company used \$30,180 of the net proceeds from the Private Placement to repay long-term debt payable to Andrew Gumaer and Harvey Yellen, the two former Great American Members (as described in Note 8), both of whom were executive officers and directors of the Company at the time of such repayment. The \$30,000 principal payment and then outstanding accrued interest of \$180 retired the entire \$48,759 face amount of the long-term debt at a discount of \$18,759. The discount of \$18,759 has been recorded as a capital contribution to additional paid in capital.

The Company entered into a registration rights agreement (the “Registration Rights Agreement”) with the investors participating in the Private Placement and selling stockholders of BRC. In accordance with the terms of the Registration Rights Agreement, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission covering the resale of the common stock issued in the Private Placement and acquisition of BRC on September 18, 2014 and the registration statement was declared effective on November 7, 2014. The Company filed a post-effective amendment to such registration statement on April 20, 2015 with the Securities and Exchange Commission to convert such Form S-1 registration statement into a registration statement on Form S-3, which registration statement, as amended, was declared effective on July 2, 2015.

### ***Registration Statement***

On April 20, 2015, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission covering the potential offering of various securities (and securities that may be issuable upon the conversion, exercise or exchange of such securities) with an aggregate initial offering price up to \$50,000,000. Such registration statement also covers the resale of the common stock issued and potentially issuable in the acquisition of MK Capital. Such registration statement, as amended, was declared effective on July 2, 2015.

## **NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) *Principles of Consolidation and Basis of Presentation***

The condensed consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly-owned and majority-owned subsidiaries. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company’s management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 30, 2015. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

### **(b) *Use of Estimates***



The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expense during the reporting period. Estimates are used when accounting for certain items such as valuation of securities, reserves for accounts receivable and slow moving goods held for sale or auction, the carrying value of intangible assets and goodwill, the fair value of mandatorily redeemable noncontrolling interests and accounting for income tax valuation allowances. Estimates are based on historical experience, where applicable, and assumptions that management believes are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

(c)

***Revenue Recognition***

Revenues are recognized in accordance with the accounting guidance when persuasive evidence of an arrangement exists, the related services have been provided, the fee is fixed or determinable, and collection is reasonably assured.

Revenues in the Capital Markets segment are primarily comprised of (i) fees earned from corporate finance and investment banking services; (ii) revenues from sales and trading activities, and (iii) revenues from wealth management services.

Fees earned from corporate finance and investment banking services are derived from debt, equity and convertible securities offerings in which the Company acted as an underwriter or placement agent and from financial advisory services rendered in connection with client mergers, acquisitions, restructurings, recapitalizations and other strategic transactions. Fees from underwriting activities are recognized in earnings when the services related to the underwriting transaction are completed under the terms of the engagement and when the income was determined and is not subject to any other contingencies.

Revenues from sales and trading include (i) commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis, (ii) related net trading gains and losses from market making activities and from the commitment of capital to facilitate customer orders, (iii) fees paid for equity research and (iv) principal transactions which include realized and unrealized net gains and losses resulting from our principal investments in equity and other securities for the Company's account.

Revenues from wealth management services consist primarily of investment management fees that are recognized over the period the services are provided. Investment management fees are primarily comprised of fees for investment management services and are generally based on the dollar amount of the assets being managed.

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs which totaled \$734 and \$752 for the three months ended September 30, 2015 and 2014, respectively, and \$2,156 and \$2,267 for the nine months ended September 30, 2015 and 2014, respectively.

Revenues in the Auction and Liquidation segment are comprised of (i) commissions and fees earned on the sale of goods at auctions and liquidations; (ii) revenues from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation; (iii) revenue from the sale of goods that are purchased by the Company for sale at auction or liquidation sales events; (iv) fees earned from real estate services and the origination of loans; (v) revenues from financing activities is recorded over the lives of related loans receivable using the interest method; and (vi) revenues from contractual reimbursable expenses incurred in connection with auction and liquidation contracts.

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled \$1,921 and \$1,363 for the three months ended September 30, 2015 and 2014, respectively, and \$5,910 and \$4,054 for the nine months ended September 30, 2015 and 2014, respectively.

Revenues earned from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation are recognized based on proceeds received. The Company records proceeds received from these types of engagements first as a reduction of contractual reimbursable expenses, second as a recovery of its guarantee and thereafter as revenue, subject to such revenue meeting the criteria of having been fixed or determinable. Contractual reimbursable expenses and amounts advanced to customers for minimum guarantees are initially recorded as advances against customer contracts in the accompanying consolidated balance

sheets. If, during the auction or liquidation sale, the Company determines that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, the Company accrues a loss on the contract in the period that the loss becomes known.

The Company also evaluates revenue from auction and liquidation contracts in accordance with the accounting guidance to determine whether to report auction and liquidation segment revenue on a gross or net basis. The Company has determined that it acts as an agent in a substantial majority of its auction and liquidation services contracts and therefore reports the auction and liquidation revenues on a net basis.

Revenues from the sale of goods are recorded gross and are recognized in the period in which the sale of goods held for sale or auction are completed, title to the property passes to the purchaser and the Company has fulfilled its obligations with respect to the transaction. These revenues are primarily the result of the Company acquiring title to merchandise with the intent of selling the items at auction or for augmenting liquidation sales. For liquidation contracts where we take title to retail goods, our net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, and other promotional allowances and are recorded net of sales or value added tax.

Fees earned from real estate services and the origination of loans where the Company provides capital advisory services are recognized in the period earned, if the fee is fixed and determinable and collection is reasonably assured.

*(d) Direct Cost of Services*

Direct cost of services relate to service and fee revenues. The costs consist of employee compensation and related payroll benefits, travel expenses, the cost of consultants assigned to revenue-generating activities and direct expenses billable to clients in the Valuation and Appraisal segment. Direct costs of services include participation in profits under collaborative arrangements in which the Company is a majority participant. Direct costs of services also include the cost of consultants and other direct expenses related to auction and liquidation contracts pursuant to commission and fee based arrangements in the Auction and Liquidation segment. Direct cost of services does not include an allocation of the Company's overhead costs.

*(e) Concentration of Risk*

Revenue from one wholesale auction and liquidation engagement represented 11.7% of total revenues during the three months ended September 30, 2015 and revenues from one liquidation engagement represented 14.0% of total revenues during the nine months ended September 30, 2015. Revenues in the Valuation and Appraisal segment and the Auction and Liquidation segment are currently primarily generated in the United States.

The Company's activities in the Auction and Liquidation segment are executed frequently with, and on behalf of, distressed customers and secured creditors. Concentrations of credit risk can be affected by changes in economic, industry, or geographical factors. The Company seeks to control its credit risk and potential risk concentration through risk management activities that limit the Company's exposure to losses on any one specific liquidation services contract or concentration within any one specific industry. To mitigate the exposure to losses on any one specific liquidation services contract, the Company sometimes conducts operations with third parties through collaborative arrangements.

The Company maintains cash in various federally insured banking institutions. The account balances at each institution periodically exceed the Federal Deposit Insurance Corporation's ("FDIC") insurance coverage, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. The Company has not experienced any losses in such accounts. The Company also has substantial cash balances from proceeds received from auctions and liquidation engagements that are distributed to parties in accordance with the collaborative arrangements.

*(f) Income Taxes*

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in

effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

**(g) *Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(h) *Restricted Cash***

As of September 30, 2015, restricted cash included \$80 of cash collateral for the purchase of a forward exchange contract as more fully described on Note 2(o) and \$44 of cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary. As of December 31, 2014, restricted cash included \$7,532 of cash collateral for the letters of credit and the outstanding loan balance under the \$100,000 asset based credit facility described in Note 7, \$50 of cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary, and \$75 of cash collateral for electronic payment processing in Europe.

**(i) Accounts Receivable**

Accounts receivable represents amounts due from the Company's auction and liquidation, valuation and appraisal, and capital markets customers. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers' financial condition and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. Bad debt expense and changes in the allowance for doubtful accounts for the three and nine months ended September 30, 2015 and 2014 are included in Note 4.

**(j) Advances Against Customer Contracts**

Advances against customer contracts represent advances of contractually reimbursable expenses incurred prior to, and during the term of the auction and liquidation services contract. These advances are charged to expense in the period that revenue is recognized under the contract.

**(k) Goods Held for Sale or Auction**

Goods held for sale or auction are stated at the lower of cost, determined by the specific-identification method, or market.

**(l) Property and Equipment**

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation and amortization expense was \$102 and \$122 for the three months ended September 30, 2015 and 2014, respectively, and \$315 and \$375 for the nine months ended September 30, 2015 and 2014, respectively.

**(m) Securities Owned and Securities Sold Not Yet Purchased**

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Securities owned consist of marketable securities recorded at fair value. Securities sold, but not yet purchased represents obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. Changes in the value of these securities are reflected currently in the results of operations.

As of September 30, 2015 and December 31, 2014, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following securities:

|  | September<br>30,<br>2015 | December<br>31,<br>2014 |
|--|--------------------------|-------------------------|
| Securities owned                           |                          |                         |
| Common stocks                              | \$ 6,872                 | \$ 16,667               |
| Mutual funds                               | 3,013                    | —                       |
| Corporate bonds                            | 501                      | 1,188                   |
| Partnership interests and other securities | 7,162                    | 100                     |
|  | \$ 17,548                | \$ 17,955               |
| Securities sold not yet purchased          |                          |                         |
| Common stocks                              | \$ 5,395                 | \$ —                    |
| Corporate bonds                            | 1,086                    | 746                     |
|  | \$ 6,481                 | \$ 746                  |

**(n) Fair Value Measurements**

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. The Company also records mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value with fair value determined in accordance with the Accounting Standards Codification ("ASC"). The table below presents information about the Company's securities owned, mandatorily redeemable noncontrolling interests and securities sold not yet purchased that are measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 which are categorized using the three levels of fair value hierarchy. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following tables present information on the assets and liabilities measured and recorded at fair value on a recurring basis as of September 30, 2015 and December 31, 2014.

|                  | <b>Financial Assets Measured at Fair Value on a Recurring Basis at September 30, 2015, Using</b> |  |                                   |   |
|------------------|--|--|-----------------------------------|---|
|                  | Fair Value at September 30, 2015   | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| <b>Assets:</b>   |  |  |                                   |   |
| Securities owned |  |  |                                   |   |
| Common stocks    | \$6,872  | \$6,846  | \$ —                              | \$ 26                                     |



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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Mutual funds                               | 3,013    | 3,013    | —        | —        |
| Corporate bonds                            | 501      | 501      | —        | —        |
| Partnership interests and other securities | 7,162    | —        | 5,996    | 1,166    |
| Total assets measured at fair value        | \$17,548 | \$10,360 | \$ 5,996 | \$ 1,192 |

Liabilities:

|   |          |         |          |          |
|---|----------|---------|----------|----------|
| Securities sold not yet purchased   |          |         |          |          |
| Common stocks   | \$5,395  | \$5,395 | \$ —     | \$ —     |
| Corporate bonds   | 1,086    | —       | 1,086    | —        |
| Contingent consideration  | 2,347    | —       | —        | 2,347    |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | 2,278    | —       | —        | 2,278    |
| Total liabilities measured at fair value                                      | \$11,106 | \$5,395 | \$ 1,086 | \$ 4,625 |

Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2014, Using Quoted

Fair Value at December 31, 2014

prices in active markets for identical assets (Level 1)

Other observable inputs (Level 2)

Significant unobservable inputs (Level 3)

Assets:

|  |          |          |          |        |
|--|----------|----------|----------|--------|
| Securities owned                           |          |          |          |        |
| Common stocks                              | \$16,667 | \$16,348 | \$ —     | \$ 319 |
| Corporate bonds                            | 1,188    | —        | 1,188    | —      |
| Partnership interests and other securities | 100      | —        | 100      | —      |
| Total assets measured at fair value        | \$17,955 | \$16,348 | \$ 1,288 | \$ 319 |

Liabilities:

|   |         |     |        |          |
|---|---------|-----|--------|----------|
| Securities sold not yet purchased   | \$746   | \$— | \$ 746 | \$ —     |
| Corporate bonds   |         |     |        |          |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | \$2,285 | \$— | \$ —   | \$ 2,285 |
| Total liabilities measured at fair value                                      | \$3,031 | \$— | \$ 746 | \$ 2,285 |

The Company determined the fair value of mandatorily redeemable noncontrolling interests described above based on the issuance of similar interests for cash, references to industry comparables, and relied, in part, on information obtained from appraisal reports and internal valuation models. The changes in Level 3 fair value hierarchy during the nine months ended September 30, 2015 and 2014 is as follows:

|   | Level 3 Changes During the Period      |                        |                                    |                                  |                                   | Level 3 Balance at End of Period |
|---|--|------------------------|------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|   | Level 3 Balance at Beginning of Period | Fair Value Adjustments | Relating to Undistributed Earnings | Purchases, Sales and Settlements | Transfer in and/or out of Level 3 |                                  |
| <b>Nine Months Ended September 30, 2015</b>                                   |  |                        |                                    |                                  |                                   |                                  |
| Common stocks   | \$ 319                                 | \$—                    | \$ —                               | \$ (293)                         | \$ —                              | \$ 26                            |
| Partnership interests   | \$ —                                   | \$41                   | \$ —                               | \$ 1,125                         | \$ —                              | \$ 1,166                         |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | \$ 2,285                               | \$—                    | \$ (7)                             | \$ —                             | \$ —                              | \$ 2,278                         |
| Contingent consideration (1)  | \$ —                                   | \$2,347                | \$ —                               | \$ —                             | \$ —                              | \$ 2,347                         |
| <b>Nine Months Ended September 30, 2014</b>                                   |  |                        |                                    |                                  |                                   |                                  |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | \$ 2,273                               | \$—                    | \$ (48)                            | \$ —                             | \$ —                              | \$ 2,225                         |

(1) Fair value adjustment of \$2,347 including initial value of contingent consideration of \$2,229 and an adjustment for imputed interest of \$118 for the nine months ended September 30, 2015.

The amount reported in the table above for the nine months ended September 30, 2015 and 2014 includes the amount of undistributed earnings attributable to the mandatorily redeemable noncontrolling interests that is distributed on a quarterly basis.

The carrying amounts reported in the condensed consolidated financial statements for cash, restricted cash, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturity of these instruments. The carrying amounts of the notes payable (including credit lines used to finance liquidation engagements) and long-term debt approximate fair value because the contractual interest rates or effective yields of such instruments are consistent with current market rates of interest for instruments of comparable credit risk.

#### ***(o) Derivative Instruments and Hedging Activity***

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain auction and liquidation engagements with operations outside the United States. At September 30, 2015, the Company's use of derivatives consists of a forward exchange contract agreement in the amount of \$1,870 Canadian dollars. The forward exchange contract was originally required to be settled anytime between June 27, 2015

and August 31, 2015 and in August 2015 the settlement date was extended to November 30, 2015. The net gains and losses from foreign exchange contracts are reported as a component of selling, general and administrative expenses in the condensed consolidated financial statements. The net gain from forward exchange contracts was \$68 and \$28 during the three and nine months ended September 30, 2015.

***(p) Foreign Currency Translation***

The Company transacts business in various foreign currencies. In countries where the functional currency of the underlying operations has been determined to be the local country's currency, revenues and expenses of operations outside the United States are translated into United States dollars using average exchange rates while assets and liabilities of operations outside the United States are translated into United States dollars using period-end exchange rates. Equity accounts of foreign subsidiaries are translated at the historical rate. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. Foreign currency transaction losses were \$127 and \$442 during the three and nine months ended September 30, 2015. Foreign currency transaction gains were \$32 and \$76 during the three and nine months ended September 30, 2014. These amounts are included in selling, general and administrative expenses in our condensed consolidated statements of operations.

***(q) Share-based Compensation***

Share-based compensation cost is measured at the grant date based on the estimated fair value of the award and is recognized as expense over the employee's requisite service period for all stock-based awards granted or modified. The awards principally consist of grants of restricted stock units with the fair value of the award, adjusted for estimated forfeitures. In accordance with the applicable accounting guidance, the grant of restricted stock units are classified as equity based awards.

***(r) Supplemental Cash Flows Disclosure***

During the nine months ended September 30, 2015, supplemental non-cash activity included a decrease in goods held for sale or auction of \$4,026, a decrease in prepaid expenses of \$2,531, and a decrease of note payable of \$6,570 related to the bankruptcy filing of Great American Group Energy and Equipment, LLC ("GAGEE"), a wholly-owned special purpose subsidiary of the Company, in the first quarter of 2015 as more fully described in Note 8.

***(s) Reclassifications***

Certain reclassifications have been made to the condensed consolidated financial statements in 2014 to conform to the current year presentation. During the three and nine months ended September 30, 2014, \$217 and \$795, respectively, of costs were reclassified from selling, general and administrative costs to direct costs in the valuation and appraisal segment.

***(t) Recent Accounting Pronouncements***

In February 2015, the FASB issued ASU 2015-2, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, that provides guidance which makes targeted amendments to current consolidation guidance. Among other things, the standard changes the manner in which we would assess one of the characteristics of variable interest entities (VIEs) and introduces a separate analysis specific to limited partnerships and similar entities for assessing if the equity holders at risk lack decision making. Limited partnerships and similar entities will be a VIE unless the limited partners hold substantive kick-out rights or participating rights. A right to liquidate an entity is akin to a kick-out right. Guidance for limited partnerships under the voting model has been eliminated. A limited partner and similar partners with a controlling financial interest obtained through substantive kick out rights would consolidate a limited partnership or similar entity. The guidance is effective for our annual and interim periods beginning in 2016. Early adoption is allowed. We have not yet determined the impact that the new guidance will have on our results of operations and financial position and have not yet determined if we will early adopt the standard.

**NOTE 3— ACQUISITIONS**

***Acquisition of MK Capital***

On January 2, 2015 the Company entered into a purchase agreement to acquire all of the equity interests of MK Capital, a wealth management business with operations primarily in New York. The terms of the purchase agreement required the sellers to meet certain pre-closing conditions. On February 2, 2015, the closing conditions were satisfied and the Company completed the purchase of MK Capital for a total purchase price of \$9,386. The purchase price is comprised of a cash payment in the amount of \$2,500 and 333,333 newly issued shares of the Company's common stock at closing which were valued at \$2,687 for accounting purposes determined based on the closing market price of the Company's shares of common stock on the acquisition date on February 2, 2015, less a 19.4% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of \$2,229 and the issuance of common stock with a fair value of \$1,970. The contingent cash consideration of \$2,229 has been recorded based on the payment of the contingent cash consideration of \$1,250 on the first anniversary date of the closing (February 2, 2016) and a final cash payment of \$1,250 on the second anniversary date of the closing (February 2, 2017) to the former members of MK Capital discounted at 8.0% per annum (initial discount of \$271). In accordance with ASC 805, "Business Combination", the contingent consideration liability has been classified as a liability on the acquisition date. Imputed interest expense totaled \$45 and \$118 for the three and nine months ended September 30, 2015. The balance of the contingent consideration liability was \$2,347 at September 30, 2015 (discount of \$153 at September 30, 2015) and has been recorded as contingent consideration liability – current portion in the amount of \$1,218 and contingent consideration liability, net of current portion in the amount of \$1,129 in the condensed consolidated balance sheet. The fair value of the contingent stock consideration in the amount of \$1,970

has been classified as equity in accordance with ASC 805, "Business Combinations", and is comprised of the issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash and stock consideration is payable on the first and second anniversary dates of the closing provided that MK Capital generates a minimum amount of gross revenues as defined in the purchase agreement for the twelve months following the first and second anniversary dates of the closing. The acquisition of MK Capital allows the Company to expand into the wealth management business.

In connection with the issuance of common stock to the members of MK Capital, the Company entered into a registration rights agreement which allows the selling members of MK Capital to register their shares upon the Company filing a prospectus or registration statement at any time subsequent to the acquisition of MK Capital. The Company filed a registration statement with the Securities and Exchange Commission on May 22, 2015 that covers the resale of the common stock issued and potentially issuable in the acquisition of MK Capital, and such registration statement, as amended, was declared effective on July 2, 2015.

The preliminary purchase price allocation was as follows:

|  |             |
|--|-------------|
| Tangible assets acquired and assumed:    |             |
| Cash and cash equivalents                | \$49        |
| Accounts receivable                      | 8           |
| Prepaid expenses and other assets        | 30          |
| Property and equipment                   | 15          |
| Accounts payable and accrued liabilities | (87 )       |
| Customer relationships                   | 2,400       |
| Goodwill                                 | 6,971       |
| <br>Total                                | <br>\$9,386 |

The amount of revenue and earnings attributable to MK Capital in the Company's condensed consolidated statement of operations during the three and nine months ended September 30, 2015 were as follows:

|                            | Three<br>Months<br>Ended<br>September<br>30, 2015 | Period<br>from<br>February 2,<br>2015<br>through<br>September<br>30, 2015 |
|----------------------------|---|---|
| Revenues                   | \$ 479  | \$ 1,285  |
| Income before income taxes | 107   | 226   |

The pro forma financial information for the three and nine months ended September 30, 2015 and 2014 as if the MK Capital acquisition had occurred on January 1, 2014 is in management's opinion immaterial to the pro forma financial information amounts reported below.

***2014 Acquisition of B. Riley and Co. Inc.***

On June 18, 2014, the Company completed the acquisition of BRC pursuant to the terms of the Acquisition Agreement (the "Acquisition Agreement"), dated as of May 19, 2014, by and among the Company, Darwin Merger Sub I, Inc., a wholly owned subsidiary of the Company, B. Riley Capital Markets, LLC, a wholly owned subsidiary of the Company ("BCM"), BRC, B. Riley & Co. Holdings, LLC ("BRH"), Riley Investment Management LLC ("RIM," and collectively with BRC and BRH, the "B. Riley Entities") and Bryant Riley, a director of the Company and principal owner of each of the B. Riley Entities. In connection with the Company's acquisition of BRC, Darwin Merger Sub I, Inc. merged with and into BRC, and BRC subsequently merged with and into BCM, with BCM surviving as a wholly owned subsidiary of the Company. The Company completed the acquisitions of BRH and RIM on August 1, 2014 in accordance with the terms of the Acquisition Agreement.

The Company acquired BRC in exchange for the issuance of 4,182,637 shares of newly issued for a total purchase price of \$26,351. The fair value of the newly issued shares of the Company's common stock for accounting purposes was determined based on the closing market price of the Company's shares of common stock on the acquisition date on June 18, 2014, less a 25% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The BRC acquisition has been accounted for under the acquisition method of accounting.

The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the June 18, 2014 acquisition date for BRC and August 1, 2014 for BRH and RIM. The application of the acquisition method of accounting resulted in goodwill of \$21,869. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of BRC in the amount of \$997 were charged against earnings in the second quarter of 2014. All of the recognized goodwill is expected to be non-deductible for tax purposes.

The purchase price allocation was as follows:

|  |              |
|--|--------------|
| Tangible assets acquired and assumed:    |              |
| Cash and cash equivalents                | \$2,667      |
| Restricted cash                          | 50           |
| Securities owned                         | 1,978        |
| Accounts receivable                      | 1,845        |
| Prepaid expenses and other assets        | 302          |
| Property and equipment                   | 76           |
| Accounts payable and accrued liabilities | (3,194 )     |
| Securities sold, not yet purchased       | (922 )       |
| Deferred tax liability                   | (1,120 )     |
| Customer relationships                   | 1,200        |
| Tradenname                               | 1,600        |
| Goodwill                                 | 21,869       |
| <br>Total                                | <br>\$26,351 |

### ***Pro Forma Financial Information***

The unaudited financial information in the table below summarizes the combined results of operations of the Company and BRC as well as the related impact of the new employment agreements with Bryant Riley, Andrew Gumaer and Harvey Yellen that became effective upon the acquisition of BRC on a pro forma basis, as though they had occurred as of January 1, 2014. The pro forma financial information presented includes the effects of adjustments related to the amortization charges from the acquired intangible assets and the elimination of certain activities excluded from the transaction. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results .

|   | Pro Forma Unaudited |            |
|---|---------------------|------------|
|   | Three               | Nine       |
|   | Months              | Months     |
|   | Ended               | Ended      |
|   | September           | September  |
|   | 30, 2014            | 30, 2014   |
| Revenues  | \$20,700            | \$71,814   |
| Net loss attributable to B. Riley Financial, Inc. | \$(881 )            | \$(1,116 ) |
| Basic loss per share                              | \$(0.06 )           | \$(0.11 )  |
| Diluted loss per share                            | \$(0.06 )           | \$(0.11 )  |
| Weighted average basic shares outstanding         | 15,911,482          | 10,069,572 |
| Weighted average diluted shares outstanding       | 15,911,482          | 10,069,572 |



**NOTE 4— ACCOUNTS RECEIVABLE**

The components of accounts receivable, net, include the following:

|  | September<br>30,<br>2015 | December<br>31,<br>2014 |
|--|--------------------------|-------------------------|
| Accounts receivable  | \$ 9,793                 | \$ 7,797                |
| Investment banking fees, commissions and other receivables | 834                      | 1,608                   |
| Unbilled receivables                                       | 237                      | 1,421                   |
| Total accounts receivable                                  | 10,864                   | 10,826                  |
| Allowance for doubtful accounts                            | (795 )                   | (728 )                  |
| Accounts receivable, net                                   | \$ 10,069                | \$ 10,098               |

Additions and changes to the allowance for doubtful accounts consist of the following:

|   | <b>Three<br/>Months<br/>Ended<br/>September<br/>30,</b> |       | Nine Months<br>Ended<br>September<br>30, |       |
|---|---|-------|--|-------|
|   | 2015  | 2014  | 2015                                     | 2014  |
| Balance, beginning of period                        | \$973   | \$331 | \$728                                    | \$275 |
| Add: Additions to reserve                           | 111   | 133   | 366                                      | 166   |
| Add: Additions from B. Riley & Co. Inc. Acquisition | —   | (31)  | —  | —     |
| Less: Write-offs                                    | (289)   | (18)  | (299)                                    | (26)  |
| Less: Recoveries                                    | —   | —     | —  | —     |
| Balance, end of period                              | \$795   | \$415 | \$795                                    | \$415 |

Unbilled receivables represent the amount of contractual reimbursable costs and fees for services performed in connection with fee and service based auction and liquidation contracts.

#### **NOTE 5— GOODS HELD FOR SALE OR AUCTION**

|                          | September<br>30,<br>2015 | December<br>31,<br>2014 |
|--------------------------|--------------------------|-------------------------|
| Machinery and equipment  | \$ —                     | \$ 4,026                |
| Aircraft parts and other | 39                       | 91                      |
| Total                    | \$ 39                    | \$ 4,117                |

Goods held for sale or auction includes machinery and equipment and aircraft parts. At December 31, 2014, machinery and equipment consisted of five oils rigs with a carrying value of \$4,026 which includes a lower-of-cost or market adjustment of \$1,782 for one of the oil rigs. Aircraft parts and other is primarily comprised of aircraft parts with a carrying value of \$39 and \$91 as of September 30, 2015 and December 31, 2014, respectively, which includes a lower of cost or market adjustment of \$1,329 at September 30, 2015 and \$1,297 at December 31, 2014.

The machinery and equipment with a carrying value of \$4,026 as of December 31, 2014 served as collateral for the related note payable, which had an outstanding principal amount of \$6,570 as of December 31, 2014. The machinery and equipment was owned by GAGEE, a wholly-owned special purpose subsidiary of the Company, which filed for bankruptcy in the first quarter of 2015 as more fully described in Note 8. As a result of the bankruptcy filing, the asset

and liabilities of GAGEE including the machinery and equipment of \$4,026 at December 31, 2014, is no longer consolidated in the Company's consolidated financial statements.

#### **NOTE 6— GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill of \$27,557 at December 31, 2014 is comprised of \$1,975 in the Auction and Liquidation segment, \$3,713 of goodwill in the Valuation and Appraisal segment and \$21,869 in the Capital Markets segment. On February 2, 2015, goodwill increased by \$6,971 from the Company's purchase of MK Capital. The increase in goodwill represents the excess of the purchase price over the fair value of assets acquired and was recorded in the Capital Markets segment based on the preliminary purchase price allocation. The acquisition of MK Capital allows the Company to expand into the wealth management business.

Other intangible assets increased from \$2,799 at December 31, 2014 to \$4,880 at September 30, 2015 from the acquisition of MK Capital. Other intangible assets includes \$1,600 for the tradename of B. Riley and \$1,200 for customer relationships in connection with the acquisition of BRC on June 18, 2014 and \$2,400 for customer relationships related to the acquisition of MK Capital on February 2, 2015. The customer relationships are being amortized over their estimated useful lives of 4 to 13 years and the tradename is not being amortized since it has an indefinite life. Amortization expense was \$111 and \$319 for the three and nine months ended September 30, 2015 and \$66 and \$75 for the three and nine months ended September 30, 2014.

**NOTE 7— CREDIT FACILITIES**

Credit facilities consist of the following arrangements:

***(a) \$100,000 Asset Based Credit Facility***

On July 15, 2013, the Company entered into a Second Amended and Restated Credit Agreement (“Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo Bank”) that amended and restated that certain First Amended and Restated Credit Agreement dated as of December 31, 2010. The maximum revolving loan amount under the asset based credit facility remains at \$100,000, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect), and the maturity date has been extended from July 16, 2013 to July 15, 2018. The asset based credit facility can be used for borrowings and letter of credit obligations up to the aggregate amount of \$100,000, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect). The interest rate for each revolving credit advance under the Credit Agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. The restated Credit Agreement removed the Company’s United Kingdom subsidiary as a party to such agreement and the concept of borrowings thereunder for certain transactions in the United Kingdom. On March 19, 2014, the Company entered into a separate credit agreement (a “UK Credit Agreement”) with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. The facility allows the Company to borrow up to 50 million British Pounds. Any borrowings on the UK Credit Agreement reduce the availability on the asset based \$100,000 credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. Cash advances and the issuance of letters of credit under the credit facility are made at the lender’s discretion. The letters of credit issued under this facility are furnished by the lender to third parties for the principal purpose of securing minimum guarantees under liquidation services contracts more fully described in Note 2(c). All outstanding loans, letters of credit, and interest are due on the expiration date which is generally within 180 days of funding. The credit facility is secured by the proceeds received for services rendered in connection with liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract. The credit facility also provides for success fees in the amount of 5% to 20% of the net profits, if any, earned on the liquidation engagements funded under the Credit Agreement as set forth therein. On July 15, 2014, the Company entered into a further amendment to the Credit Agreement whereby Wells Fargo Bank consented to the reverse stock split, Private Placement, repayment of long-term debt as more fully described in Note 8, and the acquisition of BRC. Interest expense totaled \$22 (comprised of deferred loan fees) and \$28 (including amortization of deferred loan fees of \$19) for the three months ended September 30, 2015 and 2014, respectively, and \$343 (including success fees of \$119 and amortization of deferred loan fees of \$69) and \$266 (including success fees of \$162 and amortization of deferred loan fees of \$69) for the nine months ended September 30, 2015 and 2014, respectively. There was no outstanding balance under this credit facility at September 30, 2015 and the outstanding balance under this credit facility was \$18,506 at December 31, 2014.

The Credit Agreement governing the credit facility contains certain covenants, including covenants that limit or restrict the Company’s ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain

restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Agreement, the lender may cease making loans, terminate the Credit Agreement and declare all amounts outstanding under the Credit Agreement to be immediately due and payable. The Credit Agreement specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, nonpayment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults, and material judgment defaults.

***(b) Line of Credit***

On May 17, 2011, GAAV entered into a Loan and Security Agreement (Accounts Receivable Line of Credit) (the “Line of Credit”) with BFI Business Finance (“BFI”). The Line of Credit is collateralized by the accounts receivable of GAAV and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Line of Credit, with maximum borrowings not to exceed \$2,000. The interest rate under the Line of Credit is the prime rate plus 2% (6% at September 30, 2015), payable monthly in arrears. The Line of Credit was amended effective February 3, 2012 and the maximum borrowings allowed was increased from \$2,000 to \$3,000. The maturity date of the Line of Credit is February 3, 2016 and the maturity date may be extended for successive periods equal to one year, unless GAAV gives BFI written notice of its intent to terminate the Line of Credit at least thirty days prior to the maturity date of the Line of Credit. BFI has the right to terminate the Line of Credit at its sole discretion upon giving sixty days’ prior written notice to GAAV. In connection with the Line of Credit, GAG, LLC entered into a limited continuing guaranty of GAAV’s obligations under the Line of Credit. At September 30, 2015, there was \$3,166 of accounts receivable as collateral for the Line of Credit and total borrowings outstanding of \$70. There was \$2,621 available and unused on the Line of Credit at September 30, 2015. Interest expense totaled \$9 and \$11 for three months ended September 30, 2015 and 2014, respectively, and \$75 and \$36 for the nine months ended September 30, 2015 and 2014, respectively.

**NOTE 8— NOTES PAYABLE**

Notes-payable debt consists of the following arrangements:

|  | September<br>30,<br>2015 | December<br>31,<br>2014 |
|--|--------------------------|-------------------------|
| Note payable collateralized by machinery and equipment                   | \$ —                     | \$ 6,570                |
| \$4,500 notes payable to related party - Riley Investment Partners, L.P. | —                        | —                       |
| Total notes payable, current portion                                     | \$ —                     | \$ 6,570                |

***(a) Note Payable Collateralized by Machinery and Equipment***

On May 29, 2008, GAGEE entered into a credit agreement with Garrison Special Opportunities Fund LP and Gage Investment Group LLC (collectively, the “Lenders”) to finance the purchase of certain machinery and equipment to be sold at auction or liquidation. The principal amount of the loan was \$12,000 and borrowings bore interest at a rate of 20% per annum. The loan is collateralized by the machinery and equipment which were purchased with the proceeds from the loan as more fully described in Note 5. GAGEE was required to make principal and interest payments from proceeds from the sale of the machinery and equipment. GAGEE is a special purpose entity created to purchase the machinery and equipment, whose assets consist only of the machinery and equipment in question and whose liabilities are limited to the Lenders’ note and certain operational expenses related to this transaction. GAG, LLC guaranteed GAGEE’s liabilities to the Lenders up to a maximum of \$1,200. The original maturity date of the loan was May 29, 2009; however, GAGEE exercised its right to extend the maturity date for 120 days until September 26, 2009. On September 26, 2009, the note payable became due and payable.

On October 8, 2009, GAGEE and GAG, LLC entered into a Forbearance Agreement effective as of September 27, 2009 (the “Forbearance Agreement”) with the Lenders and Garrison Loan Agency Services LLC (the “Administrative Agent”), relating to the credit agreement, by and among GAGEE, as borrower, GAG, LLC, as guarantor, the Lenders and the Administrative Agent. Pursuant to the terms of the Forbearance Agreement, the Lenders agreed to forbear from exercising any of the remedies available to them under the credit agreement and the related security agreement unless a forbearance default occurs, as specified in the Forbearance Agreement. Pursuant to the Forbearance Agreement, and further amendments to the credit agreement for which the most recent amendment which was effective December 31, 2013 the maturity date of the note payable was extended to June 30, 2015 and the interest rate remained at 0% through maturity. GAGEE has no assets other than those collateralizing the loan which is comprised of prepaid and other current assets of \$2,531 and machinery and equipment with a carrying value of \$4,026 that is included in goods held for sale or auction in the accompanying balance sheet at December 31, 2014. GAG, LLC has satisfied its obligation to pay the \$1,200 guarantee and the credit agreement does not provide for other recourse against GAG, LLC. At December 31, 2014, the note payable balance was \$6,570. On January 11, 2015, GAGEE filed for voluntary bankruptcy protection as more fully discussed below.

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code. At December 31, 2014, GAGEE had total assets of \$6,557 and total liabilities of \$6,570. Total assets included \$2,531 of other receivables included in

prepaid and other current assets and \$4,026 of goods held for sale which was comprised of five oil rigs (see Note 5). Total liabilities include the \$6,570 of notes payable discussed above that is collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets and liabilities of GAGEE described above are no longer consolidated in the Company's consolidated financial statements for periods subsequent to such bankruptcy filing. In January 2015, upon GAGEE's filing for bankruptcy the Company recorded a loss on the deconsolidation of GAGEE of \$13. On June 29, 2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE's liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

***(b) \$4,500 Note Payable to Related Party – Riley Investment Partners, L.P.***

In March 2015, the Company had capital deployed for three retail liquidation engagements. On March 10, 2015, the Company borrowed \$4,500 from Riley Investment Partners, L.P. (“RIP”) in accordance with the subordinated unsecured promissory note (the “RIP Note”). The principal amount of \$4,500 for the RIP Note accrued interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. RIP was also entitled to a success fee (the “Success Fee”) of 20% of the net profit, if any, earned by the Company in connection with a designated liquidation transaction. Pursuant to the terms of the RIP Note, under no circumstances was the Company obligated to pay RIP any portion of the combined amount of interest and the Success Fee which exceeded twelve percent (12%) of the \$4,500 principal amount of the RIP Note. The outstanding principal amount, together with the accrued and unpaid interest and the Success Fee, were due and payable by the Company on March 9, 2016. The RIP Note was subordinated in certain respects to the Company’s guaranty relating to its existing credit facility with Wells Fargo Bank, National Association and, in the event of certain insolvency proceedings, with respect to such credit facility itself, as well as to any other indebtedness of the Company to the extent required by the documents governing the repayment thereof. Interest expense on the RIP Note totaled \$194 for the nine months ended September 30, 2015, which includes success fees of \$126. The RIP Note was repaid on May 4, 2015.

Riley Investment Management LLC, a wholly owned subsidiary of the Company, is the general partner of RIP. Bryant Riley, the Chief Executive Officer and Chairman of the Board of Directors of the Company, owns or controls approximately 45% of the equity interests of RIP. In addition, Thomas Kelleher, the President and a director of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of RIP. After considering the economic interests of Mr. Riley and Mr. Kelleher in the RIP Note and comparing the terms of the RIP Note to terms that may have been available from unaffiliated third parties, the disinterested members of the Company’s Board of Directors unanimously approved the issuance of the RIP Note.

***(c) \$60,000 Note Payable***

On July 31, 2009, the Great American Members contributed all of their membership interests of GAG, LLC to the Company in exchange for 528,000 shares of common stock of the Company and a subordinated unsecured promissory note in an initial principal amount of \$60,000 issued in favor of the Great American Members and the Phantom Equityholders. In connection with the closing of the Acquisition, an initial principal payment of \$4,383 was made, thereby reducing the principal amount of the note to \$55,617. On August 28, 2009, the note was replaced with separate subordinated unsecured promissory notes (collectively, the “Notes”) issued in favor of each of the Great American Members and Phantom Equityholders. At December 31, 2013, the principal amount of \$1,724 was payable to the Phantom Equityholders with a maturity date of July 31, 2015 and \$48,759 was payable to Andrew Gumaer and Harvey Yellen, the two former Great American Members, both of whom were executive officers and directors of the Company at such time, with a maturity date of July 31, 2018 (subject to annual principal payments based upon cash flow, with certain limitations). The interest rate on these notes was 12.0% on \$640 of the principal balance payable to the Phantom Equityholders and 3.75% on the remaining \$1,084 principal balance payable to the Phantom Equityholders and \$48,759 payable to the Great American Members.



On January 31, 2014, the Company paid in full the \$640 of principal balance for the Notes to the Phantom Equityholders that had the 12.0% interest rate. On June 5, 2014, the Company used \$30,180 of the net proceeds from the Private Placement to repay the Notes payable to Andrew Gumaer and Harvey Yellen. The \$30,000 principal payment and then outstanding accrued interest of \$180 retired the entire \$48,759 face amount of outstanding Notes payable to Andrew Gumaer and Harvey Yellen. The discount of \$18,759 for the repayment of the Notes payable to Andrew Gumaer and Harvey Yellen has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements. On July 31, 2014, the remaining outstanding principal amount of \$1,085 was paid in full to the Phantom Equityholders. As of August 1, 2014, there is no remaining outstanding principal or interest payable on the Notes.

Interest expense was \$4 and \$812 for the three and nine months ended September 30, 2014.

#### **NOTE 9— INCOME TAXES**

The Company's effective income tax rate was 35.5% for the nine months ended September 30, 2015 and the effective benefit rate was (38.3)% for the nine months ended September 30, 2014. The effective income tax rate for the nine months ended September 30, 2015 is lower than the statutory federal and state income tax rate due to the tax differential on net income attributable to noncontrolling interests during the nine months ended September 30, 2015.

As of September 30, 2015, the Company had federal net operating loss carryforwards of approximately \$19,422, state net operating loss carryforwards of approximately \$19,678, and foreign tax credit carryforwards of \$342. The Company's federal net operating loss carryforwards will expire in the tax year ending December 31, 2030, the state net operating loss carryforwards will expire in 2032, and the foreign tax credit carryforwards will expire in 2022.

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. As a result of the common stock offering that was completed on June 5, 2014, the Company had a more than 50% ownership shift in accordance with Internal Revenue Code Section 382. Accordingly, the Company may be limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company's actual taxable income. As of September 30, 2015, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods before the loss carryforwards expire and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of this accounting guidance.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar years ended December 31, 2012 to 2014. The Company and its subsidiaries' state tax returns are also open to audit under similar statutes of limitations for the same tax years. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense. The Company had no such accrued interest or penalties included in the accrued liabilities associated with unrecognized tax benefits as of the date of adoption.

#### **NOTE 10— EARNINGS PER SHARE**

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period. Basic common shares outstanding exclude 66,000 common shares that are held in escrow and subject to forfeiture that were issued to the former Great American members upon the final settlement of claims for goods held for sale in connection with the Acquisition. Dilutive common shares outstanding includes

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contingently issuable shares that are currently in escrow and subject to release if the conditions for the final settlement of claims for goods held for sale in connection with the Acquisition were satisfied at the end of the respective periods. Weighted average diluted shares outstanding during the three and nine months ended September 30, 2014 exclude 58,212 shares from the computation of net loss per diluted share because the impact would have been anti-dilutive.

Basic and diluted earnings (loss) per share was calculated as follows (in thousands, except per share amounts):

|  | Three Months Ended    |            | Nine Months Ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2015 | 2014       | September 30,<br>2015 | 2014       |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$1,463               | \$(868 )   | \$12,809              | \$(2,979 ) |
| Weighted average shares outstanding:                       |                       |            |                       |            |
| Basic  | 16,243,425            | 15,911,482 | 16,199,931            | 7,492,295  |
| Effect of dilutive potential common shares:                |                       |            |                       |            |
| Restricted stock units                                     | 56,349                | —          | 28,147                | —          |
| Contingently issuable shares                               | 44,875                | —          | 44,875                | —          |
| Diluted  | 16,344,649            | 15,911,482 | 16,272,953            | 7,492,295  |
| Basic income (loss) per share                              | \$0.09                | \$(0.05 )  | \$0.79                | \$(0.40 )  |
| Diluted income (loss) per share                            | \$0.09                | \$(0.05 )  | \$0.79                | \$(0.40 )  |

## NOTE 11— COMMITMENTS AND CONTINGENCIES

### *Legal Matters*

In January 2015, the Company was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding is pending in the bankruptcy case of the debtor and its affiliates (the “Debtor”). In the lawsuit, a former landlord of the Debtor generally alleges that the Company and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking \$10,000. The Company has filed a Motion to Dismiss the Complaint and has indicated that it will deny the material averments in the Complaint. In May 2015, the plaintiff filed an Opposition to the Motion to Dismiss and in June 2015, the Company filed a Reply Brief with the Court. The Company is vigorously defending this lawsuit. This lawsuit is in the initial stages, the financial impact to the Company, if any, cannot be estimated.

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. The Company does not believe that the results of these claims are likely to have a material effect on its consolidated financial position or results of operations.

### *Commitments*

In April 2015, the Company formed GACP I, L.P. (“GACP”), a direct lending fund that focuses on providing asset-based debt loans to middle market companies. Great American Capital Partners, a wholly owned subsidiary of the Company, is the general partner and manager of GACP. In connection with the formation of GACP, the Company has committed to invest \$5,000 in exchange for a 5% partnership interest in GACP. As of September 30, 2015, the Company has funded \$1,125, which is included in securities owned at a fair value of \$1,166 in the condensed consolidated balance sheet, of the \$5,000 commitment to invest in GACP.

## NOTE 12— SHARE BASED PAYMENTS

During the nine months ended September 30, 2015, the Company granted restricted stock units representing 514,466 shares of common stock with a total fair value of \$5,125 to certain employees and directors of the Company. Of the 514,466 restricted stock units, the shares of common stock underlying such awards are issuable upon vesting as follows: 357 shares on July 31, 2015, 16,842 shares on December 10, 2015 and the remaining 497,267 shares,

one-third on December 10, 2015, one-third on December 10, 2016, and one-third on December 10, 2017. In addition, 5,859 restricted stock units that were previously issued to the directors of the Company in 2014 vested on July 31, 2015. Share based compensation expense for these restricted stock units was \$727 and \$1,193 during the three and nine months ended September 30, 2015. On May 9, 2015, the Company also paid a stock bonus amounting to 5,600 fully vested shares of common stock with a total value of \$59 to certain employees. Of the 5,600 common shares that vested upon grant, 2,304 common shares were forfeited by the employees to pay for employment withholding taxes during the second quarter of 2015. During the nine months ended September 30, 2015, 9,324 restricted stock units were forfeited and there are 505,142 restricted stock units that remain unvested as of September 30, 2015. As of September 30, 2015, the expected remaining unrecognized share based compensation expense of \$3,938 will be expensed over a weighted average period of 1.4 years.

#### **NOTE 13— RELATED PARTY TRANSACTIONS**

At September 30, 2015, amounts due from related party of \$3,371 represents amounts due from CA Global Partners, LLC (“CA Global”). At December 31, 2014, amounts due to related party of \$213 represents amounts due to CA Global. CA Global is one of the members of Great American Global Partners, LLC (“GA Global Ptrs”), a majority owned subsidiary of the Company, which started operations in the first quarter of 2013. The amount receivable at September 30, 2015 is comprised of expenses paid by the Company and amounts advanced to CA Global and amounts payable at December 31, 2014 is comprised of expenses that were paid on behalf of the Company by CA Global in connection with certain auctions of wholesale and industrial machinery and equipment that they were managed on behalf of GA Global Ptrs.

#### **NOTE 14— BUSINESS SEGMENTS**

The Company’s operating segments reflect the manner in which the business is managed and how the Company allocates resources and assesses performance internally. The Company has several operating subsidiaries through which it delivers specific services. The Company provides auction, liquidation, capital advisory, financing, real estate, and other services to stressed or distressed companies in a variety of diverse industries that have included apparel, furniture, jewelry, real estate, and industrial machinery. The Company also provides appraisal and valuation services for retail and manufacturing companies. As a result of the acquisition of BRC, the Company provides investment banking, corporate finance, research, sales and trading services to corporate, institutional and high net worth clients. In addition, with the acquisition of MK Capital in 2015, the Company also provides wealth management services in the Capital Markets segment.

The Company's business in 2014 prior to the acquisition of BRC on June 18, 2014, was previously classified by management into the Auction and Liquidation segment and Valuation and Appraisal segment. Upon closing the acquisition of BRC on June 18, 2014, the Company's business is classified into the Auction and Liquidation segment, Valuation and Appraisal segment, and Capital Markets segment. These reportable segments are all distinct businesses, each with a different marketing strategy and management structure.

The following is a summary of certain financial data for each of the Company's reportable segments:

|  | Three Months<br>Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|--|---------|------------------------------------|----------|
|  | 2015                                   | 2014    | 2015                               | 2014     |
| Auction and Liquidation reportable segment:  |  |         |                                    |          |
| Revenues - Services and fees   | \$5,727                                | \$3,397 | \$28,861                           | \$14,627 |
| Revenues - Sale of goods   | 122                                    | 5       | 10,588                             | 9,273    |
| Total revenues   | 5,849                                  | 3,402   | 39,449                             | 23,900   |
| Direct cost of services  | (1,722)                                | (1,670) | (10,642)                           | (6,708 ) |
| Cost of goods sold   | —                                      | (1,747) | (3,071 )                           | (10,811) |
| Selling, general, and administrative expenses  | (1,260)                                | (1,460) | (7,725 )                           | (7,292 ) |
| Restructuring charge   | —                                      | (1,339) | —                                  | (1,339 ) |
| Depreciation and amortization  | (45 )                                  | (19 )   | (147 )                             | (92 )    |
| Segment income (loss)  | 2,822                                  | (2,833) | 17,864                             | (2,342 ) |
| Valuation and Appraisal reportable segment:  |  |         |                                    |          |
| Revenues - Services and fees   | 7,945                                  | 7,764   | 22,972                             | 23,499   |
| Direct cost of services  | (3,491)                                | (3,465) | (9,888 )                           | (10,293) |
| Selling, general, and administrative expenses  | (2,000)                                | (2,091) | (6,434 )                           | (7,304 ) |
| Restructuring charge   | —                                      | (203 )  | —                                  | (203 )   |
| Depreciation and amortization  | (35 )                                  | (40 )   | (104 )                             | (116 )   |
| Segment income   | 2,419                                  | 1,965   | 6,546                              | 5,583    |
| Capital markets reportable segment:  |  |         |                                    |          |
| Revenues - Services and fees   | 7,478                                  | 9,508   | 30,343                             | 9,875    |
| Selling, general, and administrative expenses  | (7,310)                                | (6,527) | (23,234)                           | (7,046 ) |
| Depreciation and amortization  | (134 )                                 | (83 )   | (384 )                             | (94 )    |
| Segment income   | 34                                     | 2,898   | 6,725                              | 2,735    |
| Consolidated operating income from reportable segments   | 5,275                                  | 2,030   | 31,135                             | 5,976    |
| Corporate and other expenses (includes restructuring charge of \$1,006 in each of the three and nine month periods ended September 30, 2014) | (1,998)                                | (3,283) | (7,727 )                           | (9,543 ) |
| Interest income  | 5                                      | 3       | 10                                 | 9        |
| Interest expense   | (64 )                                  | (53 )   | (735 )                             | (1,130 ) |
| Income (loss) before income taxes  | 3,218                                  | (1,303) | 22,683                             | (4,688 ) |
| (Provision) benefit for income taxes   | (600 )                                 | 387     | (8,060 )                           | 1,795    |
| Net income (loss)  | 2,618                                  | (916 )  | 14,623                             | (2,893 ) |

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|  |         |          |          |            |
|--|---------|----------|----------|------------|
| Net income attributable to noncontrolling interests        | 1,155   | (48 )    | 1,814    | 86         |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$1,463 | \$(868 ) | \$12,809 | \$(2,979 ) |
| Capital expenditures:                                      |         |          |          |            |
| Auction and Liquidation segment                            | \$—     | \$2      | \$—      | \$38       |
| Valuation and Appraisal segment                            | 7       | —        | 24       | 1          |
| Capital Markets segment                                    | —       | 99       | 108      | 104        |
| Corporate and Other  | 18      | —        | 64       | —          |
| Total  | \$25    | \$101    | \$196    | \$143      |

|                                 | As of<br>September<br>30,<br>2015 | As of<br>December<br>31,<br>2014 |
|---------------------------------|-----------------------------------|----------------------------------|
| Total assets:                   |                                   |                                  |
| Auction and Liquidation segment | \$ 25,415                         | \$ 41,360                        |
| Valuation and Appraisal segment | 10,575                            | 9,527                            |
| Capital markets segment         | 64,069                            | 48,878                           |
| Corporate and other             | 42,310                            | 39,225                           |
| Total                           | \$ 142,369                        | \$ 138,990                       |

**NOTE 15— NET CAPITAL REQUIREMENTS**

B. Riley & Co., LLC, a subsidiary of the Company, is a registered broker-dealer and, accordingly, is subject to SEC Uniform Net Capital Rule (Rule 15c3-1) which requires B. Riley & Co., LLC to maintain minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As of September 30, 2015, B. Riley & Co., LLC had net capital of \$8,990 (an excess of \$8,592). B. Riley & Co., LLC's net capital ratio for September 30, 2015 was 0.65 to 1.

**NOTE 16— SUBSEQUENT EVENTS**

On November 9, the Company's Board of Directors approved a dividend of \$0.06 per share, which will be paid on or about December 9, 2015 to stockholders of records on November 24, 2015.



## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.*

*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. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Annual Report to conform such statements to actual results or to changes in our expectations.*

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made in Item 1A of Part II of this Quarterly Report under the caption “Risk Factors”.*

*Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in “guarantee” based engagements; competition in the asset management business, potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our auction and liquidations business; the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities as necessary; failure to comply with the terms of our credit agreements; and our ability to meet future capital requirements.*

*Except as otherwise required by the context, references in this Annual Report to “the “Company,” “B. Riley,” “we,” “us” or “our” refer to the combined business of B. Riley Financial, Inc. and all of its subsidiaries.*

## Overview

We are a leading independent investment bank with offices in Los Angeles, Orange County, San Francisco and New York providing investment banking, corporate finance, research, wealth management, sales and trading services to corporate, institutional and high net worth clients. We are also a leading provider of asset disposition, valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional service firms throughout the United States, Canada and Europe. We now operate our business in three segments: capital markets services, auction and liquidation solutions and valuation and appraisal services.

Our capital markets services segment provides a full array of investment banking, corporate finance, research, wealth management, sales and trading services to corporate, institutional and high net worth clients. Our corporate finance and investment banking services include merger and acquisitions advisory to public and private companies, initial and secondary public offerings, and institutional private placements. We also provide financial advisory services rendered in connection with client mergers, acquisitions, restructurings, recapitalizations and other strategic transactions as well as market making services to public companies. In addition, we trade equity securities as a principal for the Company's account, including investments in funds managed by our subsidiaries that may include funds invested by affiliates of ours.

Our auction and liquidation solutions segment utilizes our significant industry experience, network of highly skilled employees and scalable network of independent contractors and industry-specific advisors to tailor our services to the specific needs of a multitude of clients, logistical challenges and distressed circumstances. We have established appraisal and valuation methodologies and practices in a broad array of asset categories which have made us a recognized industry leader. Furthermore, our scale and pool of resources allow us to offer our services on a nationwide basis. Since 1995, we have participated in liquidations involving over \$26 billion in aggregate asset value and auctioned assets with an estimated aggregate value of over \$6 billion.

Our valuation and appraisal services segment provides valuation and appraisal services to financial institutions, lenders, private equity investors and other providers of capital. These services primarily include the valuation of assets (i) for purposes of determining and monitoring the value of collateral securing financial transactions and loan arrangements and (ii) in connection with potential business combinations. Our valuation and appraisal services divisions operate through limited liability companies that are majority owned by us. Our clients include major financial institutions such as Bank of America, Credit Suisse, GE Capital, JPMorgan Chase, Union Bank of California, and Wells Fargo. Our clients also include private equity firms such as Apollo Management, Goldman Sachs Capital Partners, and Sun Capital Partners.

Historically, revenues from our auction and liquidation segment vary significantly from quarter to quarter and have a significant impact on our operating results from period to period. These revenues have historically comprised a significant amount of our total revenues and operating profits. In addition, revenues from investment banking transactions in our capital markets segment will vary from quarter to quarter in the future and have comprised a significant amount of our total revenues and operating profits. During the nine months ended September 30, 2015 and year ended December 31, 2014, revenues from our auction and liquidation segment were 42.5% and 35.0% of total revenues. Our profitability in each reporting period is impacted by the number and size of retail liquidation engagements we perform on a quarterly or annual basis.

### **Private Placement and Strategic Combination**

On June 5, 2014, we completed a private placement of 10,289,300 shares of our common stock at a purchase price of \$5.00 per share (the "Private Placement"). Fifty-three accredited investors (the "Investors") participated in the Private Placement pursuant to the terms and provisions of a securities purchase agreement entered into among us and the Investors on May 19, 2014. At the closing of the Private Placement on June 5, 2014, we received net proceeds of approximately \$51.2 million. On June 5, 2014, we used \$30.2 million of the net proceeds from the Private Placement to repay long-term debt payable to Andrew Gumaer and Harvey Yellen, both of whom were executive officers and directors of the Company at the time of such repayment. The \$30.0 million principal payment and then outstanding accrued interest of \$0.2 million retired the entire \$48.8 million face amount of the long-term debt at a discount of \$18.8 million. The discount of \$18.8 million has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements.

On June 18, 2014, we completed the acquisition of B. Riley & Co. Inc. ("BRC") pursuant to the terms of the Acquisition Agreement, dated as of May 19, 2014, by and among the Company, Darwin Merger Sub I, Inc., a wholly owned subsidiary of the Company, B. Riley Capital Markets, LLC, a wholly owned subsidiary of the Company ("BCM"), BRC, B. Riley & Co. Holdings, LLC ("BRH"), Riley Investment Management LLC ("RIM"), and collectively with BRC and BRH, the ("B. Riley Entities") and Bryant Riley, a director of the Company and principal owner of each of the B. Riley Entities. In connection with the Company's acquisition of BRC, Darwin Merger Sub I, Inc. merged with and into BRC, and BRC subsequently merged with and into BCM, with BCM surviving as a wholly owned subsidiary of the Company. We completed the acquisitions of BRH, whose operations include asset management and financial advisory

services, and RIM, which provides services to certain pooled investment vehicles, on August 1, 2014.

The total purchase price for the B. Riley Entities was \$26.4 million, which was paid at closing on June 18, 2014, in the form of 4,182,637 newly issued shares of our common stock. The fair value of the newly issued shares of the Company's common stock for accounting purposes was determined based on the closing market price of the Company's shares of common stock on the acquisition date, less a 25% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer in the open market.

Effective upon the closing of the acquisition on June 18, 2014, Bryant Riley, the principal owner of BRC, was appointed as our Chief Executive Officer and Chairman. As a result of the acquisition of BRC, Bryant Riley owns approximately 24.2% of our outstanding common stock.

Revenues from the operations of BRC and MK Capital are reflected in the capital markets segment and totaled \$30.3 million for the nine months ended September 30, 2015, an increase of \$20.4 million, from the \$9.9 million of revenues from operations in the comparable the period in 2014 as the revenues in 2014 only reflect revenues from the operations of BRC from June 18, 2014, the date of acquisition, to September 30, 2014. Capital markets segment revenues for the nine months ended September 30, 2015 include revenues from investment banking fees of \$14.9 million, commissions and other income primarily earned from research, wealth management and sales and trading of \$13.6 million, and trading gains of \$1.8 million.

## Recent Developments

During the second quarter of 2014, we initiated a strategic review of our operations taking into account the planned synergies as a result of the acquisition of BRC. As a result of the strategic review, we implemented cost savings measures that resulted in a reduction in corporate overhead and the restructuring of our operations in Europe. In the third quarter of 2014, we implemented a reduction in force for some of our corporate employees and a significant number of our employees in the United Kingdom and we closed our office in Deerfield, Illinois. These initiatives resulted in a restructuring charge of \$2.5 million in the third quarter of 2014. As part of the strategic review, we restructured our UK appraisal business whereby we entered into a joint marketing and strategic alliance with an entity owned and controlled by our former UK appraisal senior management. As a result of the restructuring, we anticipate a shift in our strategic focus from Europe which is expected to result in a substantial reduction in revenues from European operations.

On January 2, 2015, we entered into a purchase agreement to acquire all of the membership interests of MK Capital Advisors, LLC (“MK Capital”), a wealth management business with operations primarily in New York. The terms of the purchase agreement required the seller to meet certain pre-closing conditions. On February 2, 2015, the closing conditions were satisfied and we completed the purchase of MK Capital for a total purchase price of \$9.4 million. Upon closing, we paid the members of MK Capital \$2.5 million in cash and issued 333,333 shares of our common stock to such members, which were valued at \$2.7 million for accounting purposes determined based on the closing market price of the Company’s shares of common stock on the acquisition date on February 2, 2015, less a 19.4% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of \$2.2 million and the issuance of common stock with a fair value of \$2.0 million. The contingent cash consideration has been recorded as a note payable to the former members of MK Capital, as more fully described in Note 8. The fair value of the contingent stock consideration in the amount of \$2.0 million has been classified as equity in accordance with ASC 805, “*Business Combinations*”, and is comprised of the issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash and stock consideration is payable on the first and second anniversary dates of the closing provided that MK Capital generates a minimum amount of gross revenues as defined in the purchase agreement for the twelve months following the first and second anniversary dates of the closing. The acquisition of MK Capital allows the Company to expand into the wealth management business.

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code. At December 31, 2014, GAGEE had total assets of \$6.6 million and total liabilities of \$6.6 million. Total assets included \$2.5 million of other receivables included in prepaid and other current assets and \$4.0 million of goods held for sale which was comprised of five oil rigs. Total liabilities include the \$6,570 of notes payable discussed above that is collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets and liabilities of GAGEE described above are no longer consolidated in our consolidated financial statements for periods subsequent to such bankruptcy filing. The loss on deconsolidation of GAGEE was less than \$0.1 million during the nine months ended September 30, 2015. On June 29,

2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE's liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

In February 2015, we were engaged to participate in a joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada. The joint venture provided Target Canada with a minimum guarantee of amounts to be realized from the liquidation of inventory. In connection with our portion of the guarantee, we provided a letter of credit to Target Canada in the amount of \$14.0 million in February 2015. The liquidation sale of inventory was completed in April 2015 and the amounts realized from the liquidation of inventory exceed the minimum guarantee. In April 2015 the \$14.0 million letter of credit provided to Target Canada was returned to us.

In March 2015, we purchased inventory and intellectual property of Schoenenreus from a bankruptcy trustee in the Netherlands for \$3.2 million. Schoenenreus is a retailer of men's, women's and children's shoes, clothing and accessories and operates 121 retail locations throughout the Netherlands. We started the going-out-of-business sale of all of Schoenenreus's inventory in March 2015 and completed the sale of all the inventory in April 2015.

In March 2015, we were engaged to liquidate the inventory for the going-out-of-business sale of 153 CACHE retail stores located throughout the United States, Puerto Rico and Virgin Islands. We provided a minimum guarantee of amounts to be realized from the liquidation of inventory. We also acquired CACHE's intellectual property and lease designation rights for all retail locations which we expect to market to strategic buyers and monetize these assets. The liquidation sale of inventory was completed in April 2015 and amounts realized from the liquidation of inventory exceed the minimum guarantee. Revenues from this retail liquidation engagement were recognized in the second quarter of 2015.

In March 2015, the Company had capital deployed for three retail liquidation engagements. On March 10, 2015, we borrowed \$4.5 million from Riley Investment Partners, L.P. ("RIP") in accordance with the subordinated unsecured promissory note (the "RIP Note"). The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. The principal amount of \$4.5 million for the RIP Note accrued interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). RIP was also entitled to a success fee (the "Success Fee") of 20% of the net profit, if any, earned by the Company in connection with a designated liquidation transaction. Pursuant to the terms of the RIP Note, under no circumstances was the Company obligated to pay to RIP any portion of the combined amount of interest and the Success Fee which exceeded twelve percent (12%) of the \$4.5 million principal amount of the RIP Note. The outstanding principal amount, together with the accrued and unpaid interest and the Success Fee, were due and payable by us on March 9, 2016. The RIP Note was subordinated in certain respects to our guaranty relating to our existing credit facility with Wells Fargo Bank, National Association and, in the event of certain insolvency proceedings, with respect to such credit facility itself, as well as to any other indebtedness of ours to the extent required by the documents governing the repayment thereof. Riley Investment Management LLC, a wholly owned subsidiary of the Company, is the general partner of RIP. Bryant Riley, the Chief Executive Officer and Chairman of the Board of Directors of the Company, owns or controls approximately 45% of the equity interests of the RIP. In addition, Thomas Kelleher, the President and a director of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of RIP. After considering the economic interests of Mr. Riley and Mr. Kelleher in the RIP Note and comparing the terms of the RIP Note to terms that may have been available from unaffiliated third parties, the disinterested members of our Board of Directors unanimously approved the issuance of the RIP Note. The RIP Note was repaid on May 4, 2015 in accordance with its terms.

In April 2015, the Company formed GACP I, L.P. ("GACP"), a direct lending fund that focuses on providing asset-based debt loans to middle market companies. Great American Capital Partners, a wholly owned subsidiary of the Company, is the general partner in GACP. In connection with the formation of GACP, the Company has committed to invest \$5.0 million in exchange for an ownership interest of 5% of GACP. As of September 30, 2015, the Company has funded \$1.1 million of the \$5.0 million commitment to invest in GACP.

In June 2015, we entered into an auction services agreement to auction approximately \$14.7 million of transportation and field services equipment that is used in the oil and gas industry in Canada. In connection with the auction services agreement, we provided a minimum recovery value of the machinery and equipment that is to be sold on behalf of the receiver. The auction of the machinery and equipment was conducted in September 2015 and the proceeds from the auction exceeded the minimum recovery value and the total fees and reimbursed expenses recognized as revenues in the third quarter of 2015 were \$2.5 million.

## **Critical Accounting Policies**

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, valuation of securities, reserves for accounts receivable and slow moving goods held for sale or auction, the carrying value of goodwill and other intangible assets, the fair value of mandatorily redeemable noncontrolling interests and accounting for income tax valuation allowances can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There have been no material changes to the policies noted above as of this quarterly report on Form 10-Q for the period ended September 30, 2015.



**Results of Operations**

The following period to period comparisons of our financial results and our interim results are not necessarily indicative of future results.

**Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014****Condensed Consolidated Statements of Operations****(Dollars in thousands)**

|  | Three Months<br>September 30,<br>2015 |          | Three Months<br>September 30,<br>2014 |          |
|--|---------------------------------------|----------|---------------------------------------|----------|
|  | <b>Amount</b>                         | <b>%</b> | <b>Amount</b>                         | <b>%</b> |
| Revenues:  |                                       |          |                                       |          |
| Services and fees  | \$21,150                              | 99.4 %   | \$20,669                              | 100.0 %  |
| Sale of goods  | 122                                   | 0.6 %    | 5                                     | 0.0 %    |
| Total revenues   | 21,272                                | 100.0 %  | 20,674                                | 100.0 %  |
| Operating expenses:  |                                       |          |                                       |          |
| Direct cost of services                                    | 5,213                                 | 24.5 %   | 5,135                                 | 24.8 %   |
| Cost of goods sold   | —                                     | 0.0 %    | 1,747                                 | 8.5 %    |
| Selling, general and administrative expenses               | 12,782                                | 60.0 %   | 12,497                                | 60.4 %   |
| Restructuring charge                                       | —                                     | -0.1 %   | 2,548                                 | 12.3 %   |
| Total operating expenses                                   | 17,995                                | 84.6 %   | 21,927                                | 106.1 %  |
| Operating income (loss)                                    | 3,277                                 | 15.4 %   | (1,253 )                              | -6.1 %   |
| Other income (expense):                                    |                                       |          |                                       |          |
| Interest income  | 5                                     | 0.0 %    | 3                                     | 0.0 %    |
| Interest expense   | (64 )                                 | -0.3 %   | (53 )                                 | -0.2 %   |
| Income (loss) before income taxes                          | 3,218                                 | 15.1 %   | (1,303 )                              | -6.3 %   |
| (Provision) benefit for income taxes                       | (600 )                                | -2.8 %   | 387                                   | 1.8 %    |
| Net income (loss)  | 2,618                                 | 12.4 %   | (916 )                                | -4.4 %   |
| Net loss attributable to noncontrolling interests          | 1,155                                 | -5.4 %   | (48 )                                 | 0.2 %    |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$1,463                               | 6.9 %    | \$(868 )                              | -4.2 %   |

**Revenues.**

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The table below and the discussion that follows are based on how we analyze our business.

|                                      | Three Months Ended September 30, 2015 |                | Three Months Ended September 30, 2014 |                | Change       |              |
|--------------------------------------|---------------------------------------|----------------|---------------------------------------|----------------|--------------|--------------|
|                                      | Amount                                | %              | Amount                                | %              | Amount       | %            |
| <b>Revenues - Services and Fees:</b> |                                       |                |                                       |                |              |              |
| Auction and Liquidation segment      | \$5,727                               | 26.9 %         | \$3,397                               | 16.4 %         | \$2,330      | 68.6 %       |
| Valuation and Appraisal segment      | 7,945                                 | 37.3 %         | 7,764                                 | 37.6 %         | 181          | 2.3 %        |
| Capital Markets segment              | 7,478                                 | 35.2 %         | 9,508                                 | 46.0 %         | (2,030)      | -21.4 %      |
| Subtotal                             | 21,150                                | 99.4 %         | 20,669                                | 100.0 %        | 481          | 2.3 %        |
| <b>Revenues - Sale of goods</b>      |                                       |                |                                       |                |              |              |
| Auction and Liquidation              | 122                                   | 0.6 %          | 5                                     | 0.0 %          | 117          | n/m          |
| <b>Total revenues</b>                | <b>\$21,272</b>                       | <b>100.0 %</b> | <b>\$20,674</b>                       | <b>100.0 %</b> | <b>\$598</b> | <b>2.9 %</b> |

n/m - Not applicable or not meaningful.

Total revenues increased \$0.6 million, to \$21.3 million during the three months ended September 30, 2015 from \$20.7 million during the three months ended September 30, 2014. The increase in revenues during the three months ended September 30, 2015 was primarily due to an increase in revenues from services and fees of \$0.5 million and an increase in revenues from the sale of goods of \$0.1 million. The increase in revenues from services and fees of \$0.5 million in 2015 was primarily due to an increase in revenues of (a) \$2.3 million in the auction and liquidation segment, and (b) \$0.2 million from our valuation and appraisal segment, offset by a decrease in revenues of \$2.0 million from our capital markets segment. Revenues from the sale of goods increased to \$0.1 during the three months ended September 30, 2015.

Revenues from services and fees in the auction and liquidation segment increased \$2.3 million, to \$5.7 million during the three months ended September 30, 2015 from \$3.4 million during the three months ended September 30, 2014. The increase in revenues from services and fees was primarily due to revenues we earned from an engagement to auction transportation and field services equipment that are used in the oil and gas industry in Canada during the three months ended September 30, 2015.

Revenues from services and fees in the valuation and appraisal segment increased \$0.2 million, to \$7.9 million during the three months ended September 30, 2015 from \$7.7 million during the three months ended September 30, 2014. The increase in revenues was primarily due to an increase related to appraisal engagements where we perform valuations of machinery and equipment for financial institutions, lenders, and private equity investors, offset by a decrease in revenues of \$0.1 million from our appraisal operations in the United Kingdom which we restructured in the third quarter of 2014.

Revenues from services and fees in the capital markets segment decreased \$2.0 million, to \$7.5 million during the three months ended September 30, 2015 from \$9.5 million during the three months ended September 30, 2014. The decrease in revenues was primarily due to a decrease in revenues of (a) \$1.6 million from investment banking fees, and (b) a decrease in trading income of \$1.3 million, offset by an increase in revenues of \$0.9 million from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services. The decrease in revenues from investment banking fees in 2015 was primarily due to a decrease in the size and number of investment banking transactions where we acted as an advisor. The decrease in trading income of \$1.3 million was primarily due to a weak equities market during the three months ended September 30, 2015 which resulted in trading losses of \$0.2 million for such period compared to the same period in 2014 when we generated trading income of \$1.1 million,

### **Sale of Goods, Cost of Goods Sold and Gross Margin**

Revenues from the sale of goods totaled \$0.1 million during the three months ended September 30, 2015 and there was no costs of goods sold associated with these sales. The sale of goods for the three months ended September 30, 2015 primarily related to sale of residual inventory and wholesale and industrial equipment that had been fully reserved during the prior quarter. During the three months ended September 30, 2014, sales of goods were less than \$0.1 million and cost of goods sold was \$1.7 million. The \$1.7 million of costs of goods sold during the three months ended September 30, 2014 related to inventory valuation charges to write down the carrying value of certain goods held for sale or auction in 2014 to lower of cost or market.

### **Operating Expenses**

**Direct Cost of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the three months ended September 30, 2015 and 2014 are as follows:

| Three Months Ended September<br>30, 2015 | Total | Three Months Ended September<br>30, 2014 | Total |
|--|-------|--|-------|
|--|-------|--|-------|

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|                                   | Auction and Liquidation Segment | Valuation and Appraisal Segment |         | Auction and Liquidation Segment | Valuation and Appraisal Segment |         |
|-----------------------------------|---------------------------------|---------------------------------|---------|---------------------------------|---------------------------------|---------|
| Revenues - Services and fees      | \$5,727                         | \$ 7,945                        |         | \$3,397                         | \$ 7,764                        |         |
| Direct cost of services           | 1,722                           | 3,491                           | \$5,213 | 1,670                           | 3,465                           | \$5,135 |
| Gross margin on services and fees | \$4,005                         | \$ 4,454                        |         | \$1,727                         | \$ 4,299                        |         |
| Gross margin percentage           | 69.9 %                          | 56.1 %                          |         | 50.8 %                          | 55.4 %                          |         |

Total direct cost of services increased \$0.1 million, to \$5.2 million during the three months ended September 30, 2015 from \$5.1 million during the three months ended September 30, 2014. Direct cost of services in the auction and liquidation segment increased \$0.1 million, to \$1.7 million during the three months ended September 30, 2015 from \$1.6 million during the three months ended September 30, 2014. The increase in expenses was primarily due to a slight increase in the number of fee and commission type engagements in 2015 where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2014. Direct cost of services in the valuation and appraisal services segment were \$3.5 million during each of the three month periods ended September 30, 2015 and 2014.

Gross margin in the auction and liquidation segment for services and fees increased to 69.9% of revenues during the three months ended September 30, 2015, as compared to 50.8% of revenues during the three months ended September 30, 2014. The increase in the gross margin during the three months ended September 30, 2015 was primarily due to a change in the mix of fee type and the impact from revenues earned from the wholesale auction and liquidation engagement of transportation and field services equipment discussed above as compared to the same period in 2014.

Gross margins in the valuation and appraisal segment increased to 56.1% of revenues during the three months ended September 30, 2015 as compared to 55.4% of revenues during the three months ended September 30, 2014. The increase in the gross margin is primarily due to the increased productivity we experienced in the third quarter of 2015 from the increase in business and revenues from machinery and equipment appraisals as compared to the same period in 2014.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the three months ended September 30, 2015 and 2014 were comprised of the following:

**Selling, General and Administrative Expenses**

|  | Three Months Ended September 30, 2015 |        | Three Months Ended September 30, 2014 |        | Change  |         |
|--|---------------------------------------|--------|---------------------------------------|--------|---------|---------|
|  | Amount                                | %      | Amount                                | %      | Amount  | %       |
| Auction and Liquidation segment                  | \$1,305                               | 10.2 % | \$1,479                               | 11.8 % | \$(174) | -11.8 % |
| Valuation and Appraisal segment                  | 2,035                                 | 15.9 % | 2,131                                 | 17.1 % | (96 )   | -4.5 %  |
| Capital Markets segment                          | 7,444                                 | 58.3 % | 6,610                                 | 52.9 % | 834     | 12.6 %  |
| Corporate and Other segment                      | 1,998                                 | 15.6 % | 2,277                                 | 18.2 % | (279)   | -12.3 % |
| Total selling, general & administrative expenses | \$12,782                              | 100.0% | \$12,497                              | 100.0% | \$285   | 2.3 %   |

Total selling, general and administrative expenses increased \$0.3 million, or 2.3%, to \$12.8 million during the three months ended September 30, 2015 from \$12.5 million for the three months ended September 30, 2014. The increase was primarily due to an increase in selling, general and administrative expenses of \$0.8 million in the capital markets segment; offset by decreases in selling, general and administrative expenses of (a) \$0.2 million in the auction and liquidation segment, (b) \$0.1 million in the valuation and appraisal segment and (c) \$0.3 million in corporate and other.

Selling, general and administrative expenses in the auction and liquidation segment decreased \$0.2 million, or 11.8%, to \$1.3 million during the three months ended September 30, 2015 from \$1.5 million for the three months ended September 30, 2014. The decrease was primarily due to a decrease in payroll and other operating expenses related to the operations of our former real estate advisory services division.

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$0.1 million, or 4.5%, to \$2.0 million during the three months ended September 30, 2015 from \$2.1 million for the three months ended September 30, 2014. The decrease in operating expenses of \$0.1 million was primarily due to a decrease in operating expenses from our valuation and appraisal business in Europe resulting from the restructuring of the operations in the third quarter of 2014.

Selling, general and administrative expenses in the capital markets segment increased \$0.8 million, or 12.6%, to \$7.4 million during the three months ended September 30, 2015 from \$6.6 million for the three months ended September

30, 2014. The increase in operating expenses of \$0.8 million is primarily due to an increase in payroll and related expenses that included expenses in 2015 from opening a new office in San Francisco, California.

Selling, general and administrative expenses for corporate and other decreased \$0.3 million, or 12.3%, to \$2.0 million during the three months ended September 30, 2015 from \$2.3 million for the three months ended September 30, 2014. The decrease was primarily due to a decrease in payroll and related expenses as a result of the restructuring in the third quarter of 2014 which resulted in a reduction of corporate headcount and the closure of our office in Deerfield, Illinois.

**Other Income (Expense).** Other income includes interest income that was less than \$0.1 million during each of the three month periods ended September 30, 2015 and 2014. Other expense also includes interest expense which totaled \$0.1 million during each of the three month periods ended September 30, 2015 and 2014. Interest expense during the three months ended September 30, 2015 was comprised of interest expense on our revolving credit facility and amortization of deferred loan fees incurred on our asset based credit facility.

**Income (Loss) Before Income Taxes.** Income before income taxes was \$3.2 million during the three months ended September 30, 2015 as compared to a loss before income taxes of \$1.3 million during the three months ended September 30, 2014. The increase in income before income taxes of \$4.5 million during the three months ended September 30, 2015 as compared to the loss in such period in 2014 was primarily due to an increase in operating income of (a) \$5.6 million in our auction and liquidation segment and (b) \$0.5 million in our valuation and appraisal segment, (c) a decrease in corporate overhead of \$1.3 million as discussed above; offset by a decrease in operating income of \$2.9 million in our capital markets segment.

**(Provision) Benefit For Income Taxes.** Provision for income taxes was \$0.6 million during the three months ended September 30, 2015 as compared to a benefit for income taxes of \$0.4 million during the three months ended September 30, 2014. The effective income tax rate was 18.6% during the three months ended September 30, 2015 and a benefit of 29.7% during the three months ended September 30, 2014.

**Net Income (Loss) Attributable to Noncontrolling Interest.** Net income (loss) attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC in 2015 and 2014 that we do not own. The net income attributable to noncontrolling interests was \$1.2 million during the three months ended September 30, 2015 compared to a net loss attributable to noncontrolling interests of \$0.1 million during the three months ended September 30, 2014.

**Net Income (Loss) Attributable to the Company.** Net income attributable to the Company for the three months ended September 30, 2015 was \$1.5 million compared to a net loss of \$0.9 million during the three months ended September 30, 2014. The increase in net income during the three months ended September 30, 2015 as compared to the same period in 2014 was primarily due to the increase in operating income in our Auction and Liquidations segment and Valuation and Appraisal segment as more fully described above.

***Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014***

**Condensed Consolidated Statements of Operations**

**(Dollars in thousands)**

|  | Nine Months<br>September 30,<br>2015 |         | Nine Months<br>September 30,<br>2014 |         |
|--|--------------------------------------|---------|--------------------------------------|---------|
|  | Amount                               | %       | Amount                               | %       |
| Revenues:                                    |                                      |         |                                      |         |
| Services and fees                            | \$82,176                             | 88.6 %  | \$48,001                             | 83.8 %  |
| Sale of goods                                | 10,588                               | 11.4 %  | 9,273                                | 16.2 %  |
| Total revenues                               | 92,764                               | 100.0 % | 57,274                               | 100.0 % |
| Operating expenses:                          |                                      |         |                                      |         |
| Direct cost of services                      | 20,530                               | 22.1 %  | 17,001                               | 29.7 %  |
| Cost of goods sold                           | 3,071                                | 3.3 %   | 10,811                               | 18.9 %  |
| Selling, general and administrative expenses | 45,755                               | 49.3 %  | 30,481                               | 53.2 %  |
| Restructuring charge                         | —                                    | 0.0 %   | 2,548                                | 4.4 %   |
| Total operating expenses                     | 69,356                               | 74.8 %  | 60,841                               | 106.2 % |
| Operating income (loss)                      | 23,408                               | 25.2 %  | (3,567 )                             | -6.2 %  |
| Other income (expense):                      |                                      |         |                                      |         |
| Interest income                              | 10                                   | 0.0 %   | 9                                    | 0.0 %   |
| Interest expense                             | (735 )                               | -0.9 %  | (1,130 )                             | -2.0 %  |
| Income (loss) before income taxes            | 22,683                               | 24.5 %  | (4,688 )                             | -8.2 %  |
| (Provision) benefit for income taxes         | (8,060 )                             | -8.7 %  | 1,795                                | 3.1 %   |
| Net income (loss)                            | 14,623                               | 15.8 %  | (2,893 )                             | -5.1 %  |

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|  |          |        |            |        |
|--|----------|--------|------------|--------|
| Net income attributable to noncontrolling interests        | 1,814    | -2.0 % | 86         | -0.2 % |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$12,809 | 13.8 % | \$(2,979 ) | -5.2 % |

**Revenues.**

The table below and the discussion that follows are based on how we analyze our business.

|  | Nine Months<br>Ended<br>September 30,<br>2015 |         | Nine Months<br>Ended<br>September 30,<br>2014 |         | Change   |        |
|--|---|---------|---|---------|----------|--------|
|  | Amount  | %       | Amount  | %       | Amount   | %      |
| Revenues - Services and Fees:                    |   |         |   |         |          |        |
| Auction and Liquidation segment                  | \$28,861                                      | 31.1 %  | \$14,627                                      | 25.5 %  | \$14,234 | 97.3 % |
| Valuation and Appraisal segment                  | 22,972  | 24.8 %  | 23,499  | 41.0 %  | (527 )   | -2.2 % |
| Capital Markets segment                          | 30,343  | 32.7 %  | 9,875   | 17.3 %  | 20,468   | n/m    |
| Subtotal   | 82,176  | 88.6 %  | 48,001  | 83.8 %  | 34,175   | 71.2 % |
| Revenues - Sale of goods Auction and Liquidation | 10,588  | 11.4 %  | 9,273   | 16.2 %  | 1,315    | 14.2 % |
| Total revenues                                   | \$92,764                                      | 100.0 % | \$57,274                                      | 100.0 % | \$35,490 | 62.0 % |

n/m - Not applicable or not meaningful.



Total revenues increased \$35.5 million, to \$92.8 million during the nine months ended September 30, 2015 from \$57.3 million during the nine months ended September 30, 2014. The increase in revenues during the nine months ended September 30, 2015 was primarily due to an increase in revenues from services and fees of \$34.2 million and an increase in revenues from the sale of goods of \$1.3 million. The increase in revenues from services and fees of \$34.2 million in 2015 was primarily due to an increase in revenues of (a) \$14.2 million in the auction and liquidation segment, and (b) \$20.5 million from our capital markets segment which includes the operating results from the operations of BRC which we acquired on June 18, 2014 and the operations of MK Capital which we acquired on February 2, 2015, offset by a decrease in revenues of \$0.5 million in our valuation and appraisal segment. Revenues from the sale of goods during the nine months ended September 30, 2015 included \$9.4 million related to the retail liquidation engagement of Schoenenreus, a retailer of men's, women's and children's shoes, clothing and accessories that operated 121 retail locations throughout the Netherlands, and the remaining \$1.2 million of revenues related the sale of wholesale and industrial equipment where we held title to the goods and sold them at auction and one retail liquidation engagement where we purchased augment goods and sold them during the retail liquidation engagement. We completed the sale of all the retail goods that we acquired title to from the bankruptcy trustee of Schoenenreus in April 2015. In the comparable period during the nine months ended September 30, 2014, the \$9.3 million of revenues from the sale of goods was primarily related to an auction of a large industrial plant where we purchased the machinery and equipment and completed the sale of the machinery and equipment during the first quarter of 2014.

Revenues from services and fees in the auction and liquidation segment increased \$14.2 million, to \$28.8 million during the nine months ended September 30, 2015 from \$14.6 million during the nine months ended September 30, 2014. The increase in revenues from services and fees in 2015 was primarily due to our participation in the joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada, offset by a decrease in revenues of \$1.4 million related to the operations of our real estate advisory services division. The joint venture provided Target Canada with a minimum guarantee of amounts to be realized from the liquidation of inventory. The liquidation sale of inventory was completed in April 2015 and the amounts realized from the liquidation of inventory exceed the minimum guarantee. Revenues from our participation in the joint venture were \$13.0 million during the nine months ended September 30, 2015. In the comparable period in 2014, we did not have any similar large retail liquidation engagements that generated a significant amount of revenues from services and fees.

Revenues from services and fees in the valuation and appraisal segment decreased \$0.5 million, to \$23.0 million during the nine months ended September 30, 2015 from \$23.5 million during the nine months ended September 30, 2014. The decrease in revenues was primarily due a decrease in revenues of (a) \$1.3 million related to appraisal engagements where we perform valuations of intellectual property and business valuations, and (b) \$0.8 million from our appraisal operations in the United Kingdom which we restructured in the third quarter of 2014. These decreases in revenues were offset by an increase in revenues of (a) \$0.9 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors, and (b) \$0.7 million for appraisals of machinery and equipment.

Revenues from services and fees in the capital markets segment were \$30.3 million during the nine months ended September 30, 2015. Capital markets segment revenues include revenues from BRC during the nine months related to

investment banking fees of \$14.9 million, commissions, fees and other income primarily earned from research, sales and trading, and wealth management services of \$13.6 million, and trading gains of \$1.8 million. During the nine months ended September 30, 2014, revenues in the capital markets segment were \$9.9 million which included revenues for the period from June 18, 2014 to September 30, 2014 as a result of our acquisition of BRC on June 18, 2014.

### **Sale of Goods, Cost of Goods Sold and Gross Margin**

Revenues from the sale of goods of \$10.6 million during the nine months ended September 30, 2015 was primarily due to the sale of retail goods related to the retail liquidation engagement of Schoenenreus. Cost of goods sold were \$3.1 million resulting in a gross margin of \$7.5 million or 71.0% during the nine months ended September 30, 2015. Revenues from the sale of goods of \$9.3 million during the nine months ended September 30, 2014 was primarily due to the sale of goods related to an auction of an industrial plant where we sold machinery and equipment at an auction we held during the first quarter of 2014. Cost of goods sold were \$10.8 million resulting in a gross margin of \$(1.5) million during the nine months ended September 30, 2014. Cost of goods sold during the nine months ended September 30, 2014 included a non-cash charge of \$1.7 million to write down the carrying value of certain goods held for sale or auction to lower of cost or market.

## Operating Expenses

**Direct Cost of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the nine months ended September 30, 2015 and 2014 are as follows:

|                                   | Nine Months Ended September 30,<br>2015  |                                       |          | Nine Months Ended September 30,<br>2014  |                                       |          |
|-----------------------------------|--|---------------------------------------|----------|--|---------------------------------------|----------|
|                                   | Auction<br>and<br>Liquidation<br>Segment | Valuation and<br>Appraisal<br>Segment | Total    | Auction<br>and<br>Liquidation<br>Segment | Valuation and<br>Appraisal<br>Segment | Total    |
| Revenues - Services and fees      | \$28,861                                 | \$ 22,972                             |          | \$14,627                                 | \$ 23,499                             |          |
| Direct cost of services           | 10,642                                   | 9,888                                 | \$20,530 | 6,708                                    | 10,293                                | \$17,001 |
| Gross margin on services and fees | \$18,219                                 | \$ 13,084                             |          | \$7,919                                  | \$ 13,206                             |          |
| Gross margin percentage           | 63.1 %                                   | 57.0 %                                |          | 54.1 %                                   | 56.2 %                                |          |

Total direct cost of services increased \$3.5 million, to \$20.5 million during the nine months ended September 30, 2015 from \$17.0 million during the nine months ended September 30, 2014. The increase in direct cost of services is primarily due to an increase in direct cost of services of \$3.9 million in the auction and liquidation segment, offset by a decrease in direct cost of services of \$0.4 million in the valuation and appraisal segment. Direct cost of services in the auction and liquidation segment increased \$3.9 million, to \$10.6 million during the nine months ended September 30, 2015 from \$6.7 million during the nine months ended September 30, 2014. The increase in expenses was primarily due to an increase in the number of fee and commission type engagements in 2015 where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2014. Direct cost of services in the valuation and appraisal services segment decreased \$0.4 million, to \$9.9 million during the nine months ended September 30, 2015 from \$10.3 million during the nine months ended September 30, 2014. The decrease in direct cost of services in the valuation and appraisal segment was primarily due to a slight decrease in headcount from productivity and efficiencies we gained in 2015.

Gross margin in the auction and liquidation segment for services and fees increased to 63.1% of revenues during the nine months ended September 30, 2015, as compared to 54.1% of revenues during the nine months ended September 30, 2014. The increase in the gross margin during the nine months ended September 30, 2015 was primarily due to a change in the mix of fee type engagements in 2015 as compared to the same period in 2014. The increase in margin in 2015 was primarily due to the impact of the revenues we earned from our participation in the joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada.

Gross margin in the valuation and appraisal segment increased to 57.0% of revenues during the nine months ended September 30, 2015 as compared to 56.2% of revenues during the nine months ended September 30, 2014. The increase in the gross margin is primarily to due to the increased productivity we experienced during the nine months ended September 30, 2015 from the increase in business and revenues from the appraisals for machinery and equipment as compared to the same period in 2014.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the nine months ended September 30, 2015 and 2014 were comprised of the following:

**Selling, General and Administrative Expenses**

|  | Nine Months Ended September 30, 2015 |         | Nine Months Ended September 30, 2014 |         | Change   |         |
|--|--------------------------------------|---------|--------------------------------------|---------|----------|---------|
|  | Amount                               | %       | Amount                               | %       | Amount   | %       |
| Auction and Liquidation segment                  | \$7,872                              | 17.2 %  | \$7,384                              | 24.2 %  | \$488    | 6.6 %   |
| Valuation and Appraisal segment                  | 6,538                                | 14.3 %  | 7,420                                | 24.3 %  | (882 )   | -11.9 % |
| Capital Markets segment                          | 23,618                               | 51.6 %  | 7,140                                | 23.4 %  | 16,478   | n/m     |
| Corporate and Other segment                      | 7,727                                | 16.9 %  | 8,537                                | 28.1 %  | (810 )   | -9.5 %  |
| Total selling, general & administrative expenses | \$45,755                             | 100.0 % | \$30,481                             | 100.0 % | \$15,274 | 50.1 %  |

Total selling, general and administrative expenses increased \$15.3 million, or 50.1%, to \$45.8 million during the nine months ended September 30, 2015 from \$30.5 million for the nine months ended September 30, 2014. The increase was primarily due to an increase in selling, general and administrative expenses of (a) \$16.5 million in the capital markets segment as a result of the acquisition of BRC on June 18, 2014 and MK Capital on February 2, 2015 and (b) \$0.5 million in the auction and liquidation segment, offset by decreases in selling, general and administrative expenses of (a) \$0.9 million in the valuation and appraisal segment and (b) \$0.8 million in corporate and other.

Selling, general and administrative expenses in the auction and liquidation segment increased \$0.5 million, or 6.6%, to \$7.9 million during the nine months ended September 30, 2015 from \$7.4 million for the nine months ended September 30, 2014. The increase was primarily due to an increase in incentive compensation and bonuses during the nine months ended September 30, 2015 as a result of the increase in operating profit in the auction and liquidation segment in 2015. The increase in incentive compensation in 2015 was offset by a decrease in payroll and other operating expenses of \$1.6 million related to the former operations of our GA Keen real estate advisory services division.

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$0.9 million, or 11.9%, to \$6.5 million during the nine months ended September 30, 2015 from \$7.4 million for the nine months ended September 30, 2014. The decrease in operating expenses of \$0.9 million was primarily due to a decrease in operating expenses from our valuation and appraisal business in Europe resulting from the restructuring of the operations in the third quarter of 2014.

Selling, general and administrative expenses in the capital markets segment were \$23.6 million during the nine months ended September 30, 2015. The operating expenses for BRC in 2015 reflect the operating expenses of BRC for the entire nine month period ended September 30, 2015 as compared to the prior year which includes the operating expenses of BRC for the period from June 18, 2014, the date of acquisition, through September 30, 2014.

Selling, general and administrative expenses for corporate and other decreased \$0.8 million, or 9.5%, to \$7.7 million during the nine months ended September 30, 2015 from \$8.5 million for the nine months ended September 30, 2014. The decrease was primarily due to a decrease in payroll and related expenses as a result of the restructuring in the third quarter of 2014 which resulted in a reduction of corporate headcount and the closure of our office in Deerfield, Illinois.

**Other Income (Expense).** Other income includes interest income that was less than \$0.1 million during each of the nine month periods ended September 30, 2015 and 2014. Other expense also includes interest expense which totaled \$0.7 million during the nine months ended September 30, 2015, a decrease of \$0.4 million from interest expense of \$1.1 million during the nine months ended September 30, 2014. The decrease in interest expense during the nine months ended September 30, 2015 was primarily due to a decrease in interest expense of \$0.8 million as a result of the early repayment of a portion of the principal balance of the related party notes payable that accrued interest at 12.0% in January 2014, the retirement of \$48.8 million of face amount of long-term debt payable to Andrew Gumaer and Harvey Yellen on June 5, 2014 and the repayment of the remaining principal balance of the related party notes payable of \$1.0 million on July 31, 2014 as more fully discussed in Note 8 to the condensed consolidated financial statements. The decrease in interest expense was offset by imputed interest expense of \$0.1 million related to the contingent consideration for the acquisition of MK Capital in February 2015 and an increase in interest expense on the revolving line of credit.

**Income (Loss) Before Income Taxes.** Income before income taxes was \$22.7 million during the nine months ended September 30, 2015 as compared to a loss before income taxes of \$4.7 million during the nine months ended September 30, 2014. The increase in income before income taxes of \$27.4 million during the nine months ended September 30, 2015 as compared to the loss in such period in 2014 was primarily due to an increase in operating income of (a) \$20.2 million in our auction and liquidation segment, (b) \$4.0 million in our capital markets segment, (c) \$1.0 million in our valuation and appraisal segment, (d) a decrease in corporate overhead and interest expense of \$1.8 million, and (e) a decrease in interest expense of \$0.4 million as discussed above.

**(Provision) Benefit For Income Taxes.** Provision for income taxes was \$8.1 million during the nine months ended September 30, 2015 as compared to a benefit for income taxes of \$1.8 million during the nine months ended September 30, 2014. The effective income tax rate was 35.5% during the nine months ended September 30, 2015 and a benefit of 38.3% during the nine months ended September 30, 2014.

**Net Income Attributable to Noncontrolling Interest.** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC in 2015 and 2014 that we do not own. The net income attributable to noncontrolling interests was \$1.8 million during the nine months ended September 30, 2015 and \$0.1 million during the nine months ended September 30, 2014.

**Net Income (Loss) Attributable to the Company.** Net income attributable to the Company for the nine months ended September 30, 2015 was \$12.8 million compared to a net loss of \$3.0 million during the nine months ended September 30, 2014. The increase in net income during the nine months ended September 30, 2015 as compared to the same period in 2014 was primarily due to the increase in operating income in our Auction and Liquidations segment and Capital Markets segment and a decrease in corporate overhead and interest expense as more fully described above.

## Liquidity and Capital Resources

Our operations are funded through a combination of existing cash on hand, cash generated from operations, proceeds from the private placement of common stock, borrowings under our revolving credit facility and special purposes financing arrangements. On June 5, 2014, we completed a private placement of 10,289,300 shares of our common stock at a purchase price of \$5.00 per share and raised net proceeds of \$51.2 million. During the nine months ended September 30, 2015 we generated net income of \$12.8 million and during the year ended December 31, 2014 we generated a net loss of \$5.8 million. Our cash flows and profitability are impacted by the number and size of retail liquidation and capital markets engagements performed on a quarterly and annual basis. Our cash flow from operations historically was also impacted by the interest expense and debt service requirements on the \$50.5 million in principal of subordinated, unsecured promissory notes. On June 5, 2014, we used \$30.2 million of the proceeds from the Private Placement to repay long-term debt payable to Andrew Gumaer and Harvey Yellen, both of whom were executive officers and directors of the Company at the time of such repayment. The \$30.0 million principal payment and then outstanding accrued interest of \$0.2 million retired the entire \$48.8 million face amount of the long-term debt at a discount of \$18.8 million. The discount of \$18.8 million has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements. On July 31, 2014, principal payments totaling \$1.0 million were paid in accordance with the terms of the other subordinated, unsecured promissory notes, which represented the remaining outstanding principal amount on such notes. As of August 1, 2014, there is no remaining outstanding principal or interest payable on such notes. Cash provided by operations was \$44.0 million during the nine months ended September 30, 2015 and cash used by operations was \$5.8 million during the nine months ended September 30, 2014.

As of September 30, 2015, we had \$45.9 million of unrestricted cash, \$0.1 million of restricted cash, net investments in securities of \$11.1 million, and \$0.1 million of borrowings outstanding on our revolving credit facility. We believe that our current cash and cash equivalents, funds available under our asset based credit facility and cash expected to be generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We continue to monitor our financial performance to ensure sufficient liquidity to fund operations and execute on our business plan.

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. During the nine months ended September 30, 2015, we paid cash dividends of \$4.2 million on our common stock. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

## Cash Flow Summary

**Nine Months  
Ended**

|   | <b>September 30,</b>          |             |
|---|-------------------------------|-------------|
|   | <b>2015</b>                   | <b>2014</b> |
|   | <b>(Dollars in thousands)</b> |             |
| <b>Net cash provided by (used in):</b>    |                               |             |
| Operating activities                      | \$43,994                      | \$(5,785 )  |
| Investing activities                      | 4,890                         | 522         |
| Financing activities                      | (24,554)                      | 12,111      |
| Effect of foreign currency on cash        | (8 )                          | (173 )      |
| Net increase in cash and cash equivalents | \$24,322                      | \$6,675     |

Cash provided by operating activities was \$44.0 million for the nine months ended September 30, 2015, an increase of \$49.8 million from the \$5.8 million of cash used in operating activities for the nine months ended September 30, 2014. Net cash provided by operating activities during the nine months ended September 30, 2015 was primarily comprised of (a) net income of \$14.6, (b) non-cash items related to depreciation and amortization, provision for credit losses, share based payments, and deferred income taxes of \$7.7 million, and (c) the impact of the net changes in operating assets and liabilities of \$21.7 million. Net cash provided by investing activities was \$4.9 million for the nine months ended September 30, 2015; an increase of \$4.4 million, from the \$0.5 million of cash provided by investing activities for the nine months ended September 30, 2014. Net cash provided by investing activities during the nine months ended September 30, 2015 was primarily comprised of cash provided from the decrease in restricted cash of \$7.5 million, offset by cash used of \$2.5 million in connection with the acquisition of MK Capital and \$0.2 million of cash used to purchase property and equipment. The decrease in restricted cash of \$7.5 million was primarily the result of the return of cash that was used to collateralize letters of credit that were required in accordance with the terms of certain retail liquidation engagements that we were contracted to provide services for in the first quarter of 2015. Cash used in financing activities was \$24.5 million for the nine months ended September 30, 2015 compared to cash provided by financing activities of \$12.1 million during the comparable period in 2014. Cash used in financing activities for the nine months ended September 30, 2015 consisted of (a) \$18.5 million used to repay the balance outstanding on our asset based credit facility, (b) \$4.2 million of dividends paid on our common stock, and (c) \$1.8 million of distributions to noncontrolling interests.



### *Contingent Consideration*

In connection with the acquisition of MK Capital on February 2, 2015 for a total purchase price of \$9.4 million, at closing \$2.5 million of the purchase price was paid in cash and 333,333 newly issued shares of the Company's common stock with a fair value of \$2.7 million were issued to the former members of MK Capital. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of \$2.2 million and the issuance of shares of common stock with a fair value of \$2.0 million. The contingent cash consideration of \$2.2 million payable to the former members of MK Capital represents the fair value of the contingent cash consideration of \$1.25 million due on the first anniversary date of the closing (February 2, 2016) and a final cash payment of \$1.25 million due on the second anniversary date of the closing (February 2, 2017), with imputed interest expense calculated at 8% per annum. The contingent stock consideration of \$2.0 million is comprised of the issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash and stock consideration is payable on the first and second anniversary dates of the closing provided that MK Capital generates a minimum amount of gross revenues as defined in the purchase agreement for the twelve months following the first and second anniversary dates of the closing.

### *Credit Agreements*

From time to time, we utilize our asset based credit facility to fund costs and expenses incurred in connection with liquidation engagements. We also utilize this credit facility in order to issue letters of credit in connection with liquidation engagements conducted on a guaranteed basis. Subject to certain limitations and offsets, we are permitted to borrow up to \$100.0 million under the credit facility, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect), and the maturity date has been extended from July 16, 2013 to July 15, 2018. Borrowings under the credit facility are only made at the discretion of the lender and are generally required to be repaid within 180 days. The interest rate for each revolving credit advance under the related credit agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. On March 19, 2014, the Company entered into a separate credit agreement (a "UK Credit Agreement") with an affiliate of Wells Fargo Bank, National Association which provides for the financing of transactions in the United Kingdom. The facility allows the Company to borrow up to 50 million British Pounds. Any borrowings on the UK Credit Agreement reduce the availability on the asset based \$100.0 million credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. The credit facility is secured by the proceeds received for services rendered in connection with the liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract, if any. The credit facility also provides for success fees in the amount of 5% to 20% of the net profits, if any, earned on liquidation engagements that are financed under the credit facility as set forth in the related credit agreement. We typically seek borrowings on an engagement-by-engagement basis. The credit agreement governing the credit facility contains certain covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. At September 30, 2015, there was no outstanding balance under the credit facility as the balance outstanding of \$18.5 million at December 31, 2014 was repaid to Wells Fargo Bank, National

Association during the second quarter of 2015.

On May 29, 2008, Great American Group Energy Equipment, LLC (“GAGEE”) entered into a credit agreement to finance the purchase of oil rigs and other equipment related to the oil exploration business to be sold at auction or liquidation. Under the original credit agreement, the principal amount of the loan was \$12.0 million and borrowings bear interest at a rate of 20% per annum. The loan is collateralized by the oil rigs and other equipment related to the oil exploration business that was purchased with the proceeds from the loan. GAGEE is required to make principal and interest payments from proceeds from the sale of the oil rigs and other equipment related to the oil exploration business. GAGEE is a special purpose entity created to purchase the oil rigs and other equipment related to the oil exploration business, whose assets consist only of the oil rigs and other equipment related to the oil exploration business in question and whose liabilities are limited to the lenders’ note and certain operational expenses related to this transaction. Under the Third Amendment to the Credit Agreement dated March 19, 2012, the maturity date of the note payable was extended to December 31, 2012 with an interest rate of 0% through maturity. GAGEE entered into a Fourth Amendment to the Credit Agreement effective December 31, 2012 which extended the maturity date of the note payable to December 31, 2013 and the interest rate remained at 0% through maturity. GAGEE entered into a Fifth Amendment to the Credit Agreement effective December 31, 2013 which extended the maturity date of the note payable to June 30, 2015 and the interest rate remained at 0% through maturity. The Third, Fourth and Fifth Amendments to the Credit Agreement also provided for the lender to reimburse GAGEE for certain expenses from proceeds of the sale or lease of the assets that collateralize the note payable. During the year ended December 31, 2014, the lease payments collected from the lease of four oil rigs was used to reduce the outstanding note payable balance by \$0.3 million, to \$6.6 million at December 31, 2014. GAG, LLC guaranteed GAGEE’s liabilities to the lenders up to a maximum of \$1.2 million. GAG, LLC made a payment of \$1.2 million on October 9, 2009 in full satisfaction of its guaranty under the credit agreement, which reduced the principal amount of borrowings and interest due under the credit agreement. The credit agreement does not provide for other recourse against us, GAG, LLC or any of our other subsidiaries.

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code (as amended, the "Bankruptcy Code"). At December 31, 2014, GAGEE had total assets of \$6.5 million and total liabilities of \$6.6 million. Total assets included \$2.5 million of other receivables included in prepaid and other current assets and \$4.0 million of goods held for sale which was comprised of five oil rigs, see Note 5 to our condensed consolidated financial statements. Total liabilities at December 31, 2014 included the \$6.6 million of notes payable discussed above that was collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets and liabilities of GAGEE described are no longer consolidated in our consolidated financial statements for periods subsequent to such bankruptcy filing. The loss on deconsolidation of GAGEE was less than \$0.1 million during the quarter ended June 30, 2015. On June 29, 2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE's liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

#### ***Accounts Receivable Line of Credit***

On May 17, 2011, one of our majority owned subsidiaries entered into an Accounts Receivable Line of Credit with a finance company. Proceeds from the Accounts Receivable Line of Credit were used to pay off borrowings under the factoring agreement. The Accounts Receivable Line of Credit is collateralized by the accounts receivable of our majority owned subsidiary and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Accounts Receivable Line of Credit, with maximum borrowings not to exceed \$2.0 million. The interest rate under the Accounts Receivable Line of Credit is the prime rate plus 2%, payable monthly in arrears. The Accounts Receivable Line of Credit was amended effective February 3, 2012 and the maximum borrowings allowed increased from \$2.0 million to \$3.0 million. The maturity date of the Accounts Receivable Line of Credit is February 3, 2016 and the maturity date may be extended for successive periods equal to one year, unless our majority owned subsidiary gives the finance company written notice of its intent to terminate the Accounts Receivable Line of Credit at least thirty days prior to the maturity date of the Accounts Receivable Line of Credit. The finance company has the right to terminate the Accounts Receivable Line of Credit at its sole discretion upon giving sixty days' prior written notice. In connection with the Accounts Receivable Line of Credit, GAG, LLC entered into a limited continuing guaranty of our majority owned subsidiary's obligations under the Accounts Receivable Line of Credit. Borrowings outstanding under the Accounts Receivable Line of Credit were \$0.1 million at each of September 30, 2015 and December 31, 2014.

#### ***Promissory Notes and Other Borrowings***

As of December 31, 2013, there was \$48.8 million in aggregate principal amount outstanding owed to Andrew Gumaer, a member of our Board of Directors and an executive officer, and Harvey Yellen, a former director and

executive officer, all of which accrued interest at 3.75%. In addition, there was \$1.7 million in aggregate principal amount outstanding payable to other related parties, \$1.0 million of which accrued interest at 3.75% and \$0.7 million of which accrue interest at 12.0%. On January 31, 2014, the Company paid in full the \$0.7 million of principal balance for the notes that had the 12.0% interest rate. The remaining \$1.0 million principal amount payable had a maturity date of July 31, 2014. The \$48.8 million principal amount payable to Messrs. Gumaer and Yellen had a maturity date of July 31, 2018.

On June 5, 2014, we used \$30.2 million of the net proceeds from the Private Placement to repay the principal amount and accrued interest owing to Messrs. Gumaer and Yellen. The \$30.0 million principal payment and then outstanding accrued interest of \$0.2 million retired the entire \$48.8 million face amount of such outstanding notes. The discount of \$18.8 million for the repayment of the notes payable was recorded as a capital contribution to additional paid in capital in our consolidated financial statements. On July 31, 2014, the remaining outstanding principal amount of \$1.0 million was paid in full to the other related parties. As of August 1, 2014, there is no remaining outstanding principal or interest payable on the notes payable to related parties.

On March 10, 2015, the Company borrowed \$4.5 million from RIP in accordance with the RIP Note. The principal amount of \$4.5 million for the RIP Note accrued interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. RIP was also entitled to the Success Fee of 20% of the net profit, if any, earned by the Company in connection with a designated liquidation transaction. Pursuant to the terms of the RIP Note, under no circumstances was the Company obligated to pay to RIP any portion of the combined amount of interest and the Success Fee which exceeded twelve percent (12%) of the \$4.5 million principal amount of the RIP Note. The outstanding principal amount, together with the accrued and unpaid interest and the Success Fee, was due and payable by the Company on March 9, 2016. The RIP Note was subordinated in certain respects to the Company's guaranty relating to its existing credit facility with Wells Fargo Bank, National Association and, in the event of certain insolvency proceedings, with respect to such credit facility itself, as well as to any other indebtedness of the Company to the extent required by the documents governing the repayment thereof. The RIP Note was repaid on May 4, 2015.

Riley Investment Management LLC, a wholly owned subsidiary of the Company, is the general partner of RIP. Bryant Riley, the Chief Executive Officer and Chairman of the Board of Directors of the Company, owns or controls approximately 45% of the equity interests of RIP. In addition, Thomas Kelleher, the President and a director of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of RIP. After considering the economic interests of Mr. Riley and Mr. Kelleher in the RIP Note and comparing the terms of the RIP Note to terms that may have been available from unaffiliated third parties, the disinterested members of the Company's Board of Directors unanimously approved the issuance of the RIP Note.

### **Off Balance Sheet Arrangements**

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements and do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, established for the purpose of facilitating off-balance sheet arrangements. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

### **New Accounting Standards**

In February 2015, the FASB issued ASU 2015-2, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, that provides guidance which makes targeted amendments to current consolidation guidance. Among other things, the standard changes the manner in which we would assess one of the characteristics of variable interest entities (VIEs) and introduces a separate analysis specific to limited partnerships and similar entities (such as Nutra SA) for assessing if the equity holders at risk lack decision making. Limited partnerships and similar entities will be a VIE unless the limited partners hold substantive kick-out rights or participating rights. A right to liquidate an entity is akin to a kick-out right. Guidance for limited partnerships under the voting model has been eliminated. A limited partner and similar partners with a controlling financial interest obtained through substantive kick out rights would consolidate a limited partnership or similar entity. The guidance is effective for our annual and interim periods beginning in 2016. Early adoption is allowed. We have not yet determined the impact that the new guidance will have on our results of operations and financial position and have not yet determined if we will early adopt the standard.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the “Exchange Act”), under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of our fiscal quarter ended September 30, 2015. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (“SEC”) rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2015.

*Changes in Internal Control over Financial Reporting*

There have been no changes to our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitation on Effectiveness of Controls*

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not

achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we are involved in litigation arising out of our operations. We believe that we are not currently a party to any proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations.

### **Item 1A. Risk Factors**

Given the nature of our operations and services we provide, a wide range of factors could materially affect our operations and profitability. Changes in competitive, market and economic conditions also affect our operations. The risks and uncertainties described below are not the only risks and uncertainties facing us. Additional risks and uncertainties not presently known or that are currently considered to be immaterial may also materially and adversely affect our business operations or stock price. If any of the following risks or uncertainties occurs, our business, financial condition or operating results could materially suffer.

#### ***Our revenues and results of operations are volatile and difficult to predict.***

Our revenues and results of operations fluctuate significantly from quarter to quarter, due to a number of factors. These factors include, but are not limited to, the following:

- Our ability to attract new clients and obtain additional business from our existing client base;
- The number, size and timing of mergers and acquisition transactions, capital raising transactions and other strategic advisory services where we act as an adviser on our auction and liquidation and investment banking engagements;
- The extent to which we acquire assets for resale, or guarantee a minimum return thereon, and our ability to resell those assets at favorable prices;
- Variability in the mix of revenues from the auction and liquidation and valuation and appraisal services businesses;



- The rate of growth of new service areas;
- The types of fees we charge clients, or other financial arrangements we enter into with clients; and
- Changes in general economic and market conditions.

We have limited or no control over some of the factors set forth above and, as a result, may be unable to forecast our revenues accurately. For example, our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. A client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the contemplated transaction.

We rely on projections of revenues in developing our operating plans for the future and will base our expectations regarding expenses on these projections and plans. If we inaccurately forecast revenues and/or earnings, or fail to accurately project expenses, we may be unable to adjust our spending in a timely manner to compensate for these inaccuracies and, as a result, may suffer operating losses and such losses could have a negative impact on our financial condition and results of operations. If, for any reason, we fail to meet company, investor or analyst projections of revenue, growth or earnings, the market price of the common stock could decline and you may lose all or part of your investment.

***Conditions in the financial markets and general economic conditions have impacted and may continue to impact our ability to generate business and revenues, which may cause significant fluctuations in our stock price.***

Our business has in the past, and may in the future, be materially affected by conditions in the financial market and general economic conditions, such as the level and volatility of interest rates, investor sentiment, the availability and the cost of credit, the U.S. mortgage market, the U.S. real estate market, volatile energy prices, consumer confidence, unemployment, and geopolitical issues. Further, certain aspects of our business are cyclical in nature and changes in the current economic environment may require us to adjust our sales and marketing practices and react to different business opportunities and modes of competition. If we are not successful in reacting to changing economic conditions, we may lose business opportunities which could harm our financial condition. For example, we are more likely to conduct auctions and liquidations in connection with insolvencies and store closures during periods of economic downturn relative to periods of economic expansion. Conversely, during an economic downturn, financial institutions that provide asset-based loans typically reduce the number of loans made, which reduces their need for our valuation and appraisal services.



In addition, weakness or disruption in equity markets and diminished trading volume of securities could adversely impact our sales and trading business in the future. Any industry-wide declines in the size and number of underwritings and mergers and acquisitions transactions could also have an adverse effect on our investment banking revenues. Reductions in the trading prices for equity securities tend to reduce the transaction value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. Market conditions may also affect the level and volatility of securities prices and the liquidity and value of investments in our funds and proprietary inventory, and we may not be able to manage our business's exposure to these market conditions. In addition to these factors, deterioration in the financial markets or economic conditions could materially affect our investment banking business in other ways, including the following:

- Our opportunity to act as underwriter or placement agent could be adversely affected by a reduction in the number and size of capital raising transactions or by competing government sources of equity.

- - The number and size of mergers and acquisitions transactions or other strategic advisory services where we act as adviser could be adversely affected by continued uncertainties in valuations related to asset quality and creditworthiness, volatility in the equity markets, and diminished access to financing.

- Market volatility could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenue we receive from commissions and spreads.

- We may experience losses in securities trading activities, or as a result of write-downs in the value of securities that we own, as a result of deteriorations in the businesses or creditworthiness of the issuers of such securities.

- We may experience losses or write downs in the realizable value of our proprietary investments due to the inability of companies we invest in to repay their borrowings.

- Our access to liquidity and the capital markets could be limited, preventing us from making proprietary investments and restricting our sales and trading businesses.

- We may incur unexpected costs or losses as a result of the bankruptcy or other failure of companies for which we have performed investment banking services to honor ongoing obligations such as indemnification or expense reimbursement agreements.

- Sudden sharp declines in market values of securities can result in illiquid markets and the failure of counterparties to perform their obligations, which could make it difficult for us to sell securities, hedge securities positions, and invest funds under management.

As an introducing broker to clearing firms, we are responsible to the clearing firm and could be held liable for the defaults of our customers, including losses incurred as the result of a customer's failure to meet a margin call. When we allow customers to purchase securities on margin, we are subject to risks inherent in extending credit. This risk increases when a market is rapidly declining and the value of the collateral held falls below the amount of a customer's indebtedness. If a customer's account is liquidated as the result of a margin call, we are liable to our clearing firm for any deficiency.

Competition in our investment banking, sales, and trading businesses could intensify as a result of the increasing pressures on financial services companies and larger firms competing for transactions and business that historically would have been too small for them to consider.

Market volatility could result in lower prices for securities, which may result in reduced management fees calculated as a percentage of assets under management.

Market declines could increase claims and litigation, including arbitration claims from customers.

Our industry could face increased regulation as a result of legislative or regulatory initiatives. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

Government intervention may not succeed in improving the financial and credit markets and may have negative consequences for our business.

It is difficult to predict how long current financial market and economic conditions will continue, whether they will deteriorate and if they do, which of our business lines will be adversely affected. If one or more of the foregoing risks occurs, our revenues are likely to decline and, if we were unable to reduce expenses at the same pace, our profit margins could erode.

***We focus principally on specific sectors of the economy in our investment banking operations, and deterioration in the business environment in these sectors or a decline in the market for securities of companies within these sectors could harm our business.***

We focus principally on five target industries in our investment banking operations: consumer goods, consumer services, defense, industrials and technology. Volatility in the business environment in these industries or in the market for securities of companies within these industries could adversely affect our financial results and the market value of our common stock. The business environment for companies in some of these industries has been subject to high levels of volatility in recent years, and our financial results have consequently been subject to significant variations from year to year. The market for securities in each of our target industries may also be subject to industry-specific risks. For example, we have research, investment banking and principal investments focused in the areas of defense. This sector has been subject to U.S. Department of Defense budget cuts as well as by disruptions in the financial markets and downturns in the general economy. The consumer goods and services sectors are subject to consumer spending trends, which have been volatile, to mall traffic trends, which have been down, to the availability of credit, and to broader trends such as the rise of Internet retailers. Emerging markets have driven the growth of certain consumer companies but emerging market economies are fragile, subject to wide swings in GDP, and subject to changes in foreign currencies. The technology industry has been volatile, driven by evolving technology trends, by technological obsolescence, by enterprise spending, and by changes in the capital spending trends of major corporations and government agencies around the world.

Our investment banking operations focus on various sectors of the economy, and we also depend significantly on private company transactions for sources of revenues and potential business opportunities. Most of these private company clients are initially funded and controlled by private equity firms. To the extent that the pace of these private company transactions slows or the average transaction size declines due to a decrease in private equity financings, difficult market conditions in our target industries or other factors, our business and results of operations may be harmed.

Underwriting and other corporate finance transactions, strategic advisory engagements and related sales and trading activities in our target industries represent a significant portion of our investment banking business. This concentration of activity in our target industries exposes us to the risk of declines in revenues in the event of downturns in these industries.

***Our corporate finance and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.***

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific corporate finance, merger and acquisition transactions (often as an advisor in company sale transactions) and other strategic advisory services, rather than on a recurring basis under long-term contracts. As these transactions

are typically singular in nature and our engagements with these clients may not recur, we must seek new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business, results of operations and financial condition could be adversely affected.

***The asset management business is intensely competitive.***

Over the past several years, the size and number of asset management funds, including hedge funds and mutual funds, has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors leads to a reduction in the size and duration of pricing inefficiencies. Many alternative investment strategies seek to exploit these inefficiencies and, in certain industries, this drives prices for investments higher, in either case increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease. Competition is based on a variety of factors, including:

- investment performance;
- investor perception of the drive, focus and alignment of interest of an investment manager;
  - quality of service provided to and duration of relationship with investors;
- business reputation; and
- level of fees and expenses charged for services.

We compete in the asset management business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks, as follows:

- investors may develop concerns that we will allow a fund to grow to the detriment of its performance;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into our various lines of business, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and
- other industry participants in the asset management business continuously seek to recruit our best and brightest investment professionals away from us.

These and other factors could reduce our earnings and revenues and adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current base management and incentive fee structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees relative to those of our competitors. However, there is a risk that fees in the alternative investment management industry will decline, without regard to the historical performance of a manager, including our managers. Fee reductions on our existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and distributable earnings.

***Poor investment performance may decrease assets under management and reduce revenues from and the profitability of our asset management business.***

Revenues from our asset management business are primarily derived from asset management fees. Asset management fees are generally comprised of management and incentive fees. Management fees are typically based on assets under management, and incentive fees are earned on a quarterly or annual basis only if the return on our managed accounts exceeds a certain threshold return, or “highwater mark,” for each investor. We will not earn incentive fee income during a particular period, even when a fund had positive returns in that period, if we do not generate cumulative performance that surpasses a highwater mark. If a fund experiences losses, we will not earn incentive fees with regard to investors in that fund until its returns exceed the relevant highwater mark.

In addition, investment performance is one of the most important factors in retaining existing investors and competing for new asset management business. Investment performance may be poor as a result of the current or future difficult market or economic conditions, including changes in interest rates or inflation, terrorism or political uncertainty, our investment style, the particular investments that we make, and other factors. Poor investment performance may result in a decline in our revenues and income by causing (i) the net asset value of the assets under our management to decrease, which would result in lower management fees to us, (ii) lower investment returns, resulting in a reduction of incentive fee income to us, and (iii) investor redemptions, which would result in lower fees to us because we would have fewer assets under management.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our asset management business will likely be reduced and our ability to grow existing funds and raise new funds in the future will likely be impaired.

***The historical returns of our funds may not be indicative of the future results of our funds.***

The historical returns of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise. Our rates of returns reflect unrealized gains, as of the applicable measurement date, which may never be realized due to changes in market and other conditions not in our control that may adversely affect the ultimate value realized from the investments in a fund. The returns of our funds may have also benefited from investment opportunities and general market conditions that may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities. Furthermore, the historical and potential future returns of the funds we manage also may not necessarily bear any relationship to potential returns on our common stock.



***Our asset management clients may generally redeem their investments, which could reduce our asset management fee revenues.***

Our asset management fund agreements generally permit investors to redeem their investments with us after an initial “lockup” period during which redemptions are restricted or penalized. However, any such restrictions may be waived by us. Thereafter, redemptions are permitted at specified intervals. If the return on the assets under our management does not meet investors’ expectations, investors may elect to redeem their investments and invest their assets elsewhere, including with our competitors. Our management fee revenues correlate directly to the amount of assets under our management; therefore, redemptions may cause our fee revenues to decrease. Investors may decide to reallocate their capital away from us and to other asset managers for a number of reasons, including poor relative investment performance, changes in prevailing interest rates which make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or a broadening of a fund’s investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. For these and other reasons, the pace of redemptions and corresponding reduction in our assets under management could accelerate. In the future, redemptions could require us to liquidate assets under unfavorable circumstances, which would further harm our reputation and results of operations.

***We are subject to risks in using custodians.***

Our asset management subsidiary and its managed funds depend on the services of custodians to settle and report securities transactions. In the event of the insolvency of a custodian, our funds might not be able to recover equivalent assets in whole or in part as they will rank among the custodian’s unsecured creditors in relation to assets which the custodian borrows, lends or otherwise uses. In addition, cash held by our funds with the custodian will not be segregated from the custodian’s own cash, and the funds will therefore rank as unsecured creditors in relation thereto.

***We may suffer losses if our reputation is harmed.***

Our ability to attract and retain customers and employees may be diminished to the extent our reputation is damaged. If we fail, or are perceived to fail, to address various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with market dynamics, potential conflicts of interest, legal and regulatory requirements, ethical issues, customer privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products and services. Failure to appropriately address these issues could give rise to loss of existing or future business, financial loss, and legal or regulatory liability, including complaints, claims and enforcement proceedings against us, which could, in turn, subject us to fines, judgments and other penalties. In addition, our capital markets operations depend to a large extent on our relationships with our clients and reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging in our business than in other businesses.

***Our capital markets operations are highly dependent on communications, information and other systems and third parties, and any systems failures could significantly disrupt our capital markets business.***

Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to our capital markets operations. A system malfunction (due to hardware failure, capacity overload, security incident, data corruption, etc.) or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. We also contract with third parties for market data and other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

***The growth of electronic trading and the introduction of new technology in the markets in which our market-making business operates may adversely affect this business and may increase competition.***

The continued growth of electronic trading and the introduction of new technologies is changing our market-making business and presenting new challenges. Securities, futures and options transactions are increasingly occurring electronically, through alternative trading systems. It appears that the trend toward alternative trading systems will continue to accelerate. This acceleration could further increase program trading, increase the speed of transactions and decrease our ability to participate in transactions as principal, which would reduce the profitability of our market-making business. Some of these alternative trading systems compete with our market-making business and with our algorithmic trading platform, and we may experience continued competitive pressures in these and other areas. Significant resources have been invested in the development of our electronic trading systems, which includes our ATM business, but there is no assurance that the revenues generated by these systems will yield an adequate return on the investment, particularly given the increased program trading and increased percentage of stocks trading off of the historically manual trading markets.

***Pricing and other competitive pressures may impair the revenues of our sales and trading business.***

We derive a significant portion of our revenues for our investment banking operations from our sales and trading business. There has been intense price competition and trading volume reduction in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the downward pressure on per share trading commissions and spreads. We expect these trends toward alternative trading

systems and downward pricing pressure in the business to continue. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or by using their own capital to facilitate client trading activities. In addition, we face pressure from our larger competitors, which may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. These larger competitors may also be better able to respond to changes in the research, brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our sales and trading business, we may be required to make substantial investments in our research capabilities to remain competitive. If we are unable to compete effectively in these areas, the revenues of our sales and trading business may decline, and our business, results of operations and financial condition may be harmed.

Some of our large institutional sales and trading clients in terms of brokerage revenues have entered into arrangements with us and other investment banking firms under which they separate payments for research products or services from trading commissions for sales and trading services, and pay for research directly in cash, instead of compensating the research providers through trading commissions (referred to as “soft dollar” practices). In addition, we have entered into certain commission sharing arrangements in which institutional clients execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commission directly to us or other broker-dealers for research or to an independent research provider. If more of such arrangements are reached between our clients and us, or if similar practices are adopted by more firms in the investment banking industry, it may further increase the competitive pressures on trading commissions and spreads and reduce the value our clients place on high quality research. Conversely, if we are unable to make similar arrangements with other investment managers that insist on separating trading commissions from research products, volumes and trading commissions in our sales and trading business also would likely decrease.

***Larger and more frequent capital commitments in our trading and underwriting businesses increase the potential for significant losses.***

Certain financial services firms make larger and more frequent commitments of capital in many of their activities. For example, in order to win business, some investment banks increasingly commit to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is typically completed before an investment bank commits to purchase securities for resale. We may participate in this activity and, as a result, we may be subject to increased risk. Conversely, if we do not have sufficient regulatory capital to so participate, our business may suffer. Furthermore, we may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

We may increasingly commit our own capital as part of our trading business to facilitate client sales and trading activities. The number and size of these transactions may adversely affect our results of operations in a given period. We may also incur significant losses from our sales and trading activities due to market fluctuations and volatility in our results of operations. To the extent that we own assets, i.e., have long positions, in any of those markets, a downturn in the value of those assets or in those markets could result in losses. Conversely, to the extent that we have sold assets we do not own, i.e., have short positions, in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

***We have made and may make principal investments in relatively high-risk, illiquid assets that often have significantly leveraged capital structures, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.***

We may purchase equity securities and, to a lesser extent, debt securities, in venture capital, seed and other high risk financings of early-stage, pre-public or “mezzanine stage”, distressed situations and turnaround companies, as well as funds or other collective investment vehicles. We risk the loss of capital we have invested in these activities.

We may use our capital, including on a leveraged basis in proprietary investments in both private company and public company securities that may be illiquid and volatile. The equity securities of a privately-held entity in which we make a proprietary investment are likely to be restricted as to resale and may otherwise be highly illiquid. In the case of fund or similar investments, our investments may be illiquid until such investment vehicles are liquidated. We expect that there will be restrictions on our ability to resell the securities of any such company that we acquire for a period of at least six months after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for an initial and potentially secondary public offering of the securities. We may make principal investments that are significant relative to the overall capitalization of the investee company and resales of significant amounts of these securities might be subject to significant limitations and adversely affect the market and the sales price for the securities in which we invest. In addition, our principal

investments may involve entities or businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and we could lose our entire investment.

Even if we make an appropriate investment decision based on the intrinsic value of an enterprise, we cannot assure you that general market conditions will not cause the market value of our investments to decline. For example, an increase in interest rates, a general decline in the stock markets, or other market and industry conditions adverse to companies of the type in which we invest and intend to invest could result in a decline in the value of our investments or a total loss of our investment.

In addition, some of these investments are, or may in the future be, in industries or sectors which are unstable, in distress or undergoing some uncertainty. Further, the companies in which we invest may rely on new or developing technologies or novel business models, or concentrate on markets which are or may be disproportionately impacted by pressures in the financial services and/or mortgage and real estate sectors, have not yet developed and which may never develop sufficiently to support successful operations, or their existing business operations may deteriorate or may not expand or perform as projected. Such investments may be subject to rapid changes in value caused by sudden company-specific or industry-wide developments. Contributing capital to these investments is risky, and we may lose some or all of the principal amount of our investments. There are no regularly quoted market prices for a number of the investments that we make. The value of our investments is determined using fair value methodologies described in valuation policies, which may consider, among other things, the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment and the trading price of recent sales of securities (in the case of publicly-traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on estimates and assumptions specific to the particular investments. Therefore, the value of our investments does not necessarily reflect the prices that would actually be obtained by us when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in values would result in losses of potential incentive income and principal investments.

***We may experience write downs of our investments and other losses related to the valuation of our investments and volatile and illiquid market conditions.***

In our proprietary investment activities, our concentrated holdings, illiquidity and market volatility may make it difficult to value certain of our investment securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take write downs in the value of our investment and securities portfolio, which may have an adverse effect on our results of operations in future periods.

***Our underwriting and market-making activities may place our capital at risk.***

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. Further, even though underwriting agreements with issuing companies typically include a right to indemnification in favor of the underwriter for these offerings to cover potential liability from any material misstatements or omissions, indemnification may be unavailable or insufficient in certain circumstances, for example if the issuing company has become insolvent. As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

***Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.***

The amount and duration of our credit exposures have been increasing over the past year, as have the breadth and size of the entities to which we have credit exposures. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Declines in the market value of securities can result in the failure of buyers and sellers of securities to fulfill their settlement obligations, and in the failure of our clients to fulfill their credit obligations. During market downturns, counterparties to us in securities transactions may be less likely to complete transactions. In addition, particularly during market downturns, we may face additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

***Our businesses may be adversely affected by the disruptions in the credit markets, including reduced access to credit and liquidity and higher costs of obtaining credit.***

In the event existing internal and external financial resources do not satisfy our needs, we would have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as our financial condition and results of operations, the availability of acceptable collateral, market conditions, the general availability of credit, the volume of trading activities, and the overall availability of credit to the financial services industry.

Widening credit spreads, as well as significant declines in the availability of credit, could adversely affect our ability to borrow on an unsecured basis. Disruptions in the credit markets could make it more difficult and more expensive to obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing and taking principal positions.

Liquidity, or ready access to funds, is essential to financial services firms, including ours. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our sales and trading business, and perceived liquidity issues may affect the willingness of our clients and counterparties to engage in sales and trading transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our sales and trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.



Our clients engaging us with respect to mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit and the increased cost of credit could adversely affect the size, volume and timing of our clients' merger and acquisition transactions—particularly large transactions—and adversely affect our investment banking business and revenues.

***We have experienced losses and may not achieve or maintain profitability.***

Our profitability in each reporting period is impacted by the number and size of retail liquidation and capital markets engagements we perform on a quarterly or annual basis. It is possible that we will continue to experience losses with respect to our current operations as we continue to expand our operations. In addition, we expect that our operating expenses will increase to the extent that we grow our business. We may not be able to generate sufficient revenues to achieve or maintain profitability.

***Because of their significant stock ownership, some of our existing stockholders will be able to exert control over us and our significant corporate decisions.***

Our executive officers, directors and their affiliates own or control, in the aggregate, approximately 30.9% of our outstanding common stock as of September 30, 2015. In particular, our Chairman and Chief Executive Officer, Bryant R. Riley, owns or controls, in the aggregate, 3,944,410 shares of our common stock or 24.2% of our outstanding common stock as of September 30, 2015. These stockholders are able to exercise influence over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions, including transactions involving an actual or potential change of control of the company or other transactions that non-controlling stockholders may not deem to be in their best interests. This concentration of ownership may harm the market price of our common stock by, among other things:

- deferring, or preventing a change in control of our company;
- impeding a merger, consolidation, takeover, or other business combination involving our company;
- causing us to enter into transactions or agreements that are not in the best interests of all stockholders; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company.

***We may incur losses as a result of “guarantee” based engagements that we enter into in connection with our auction and liquidation solutions business.***

In many instances, in order to secure an engagement, we are required to bid for that engagement by guaranteeing to the client a minimum amount that such client will receive from the sale of inventory or assets. Our bid is based on a variety of factors, including: our experience, expertise, perceived value added by engagement, valuation of the inventory or assets and the prices we believe potential buyers would be willing to pay for such inventory or assets. An inaccurate estimate of any of the above or inaccurate valuation of the assets or inventory could result in us submitting a bid that exceeds the realizable proceeds from any engagement. If the liquidation proceeds, net of direct operating expenses, are less than the amount we guaranteed in our bid, we will incur a loss. Therefore, in the event that the proceeds, net of direct operating expenses, from an engagement are less than the bid, the value of the assets or inventory decline in value prior to the disposition or liquidation, or the assets are overvalued for any reason, we may suffer a loss and our financial condition and results of operations could be adversely affected.

***Losses due to any auction or liquidation engagement may cause us to become unable to make payments due to our creditors and may cause us to default on our debt obligations.***

We have three engagement structures for our auction and liquidation services: (i) a “fee” based structure under which we are compensated for our role in an engagement on a commission basis, (ii) purchase on an outright basis (and take title to) the assets or inventory of the client, and (iii) “guarantee” to the client that a certain amount will be realized by the client upon the sale of the assets or inventory based on contractually defined terms in the auction or liquidation contract. We bear the risk of loss under the purchase and guarantee structures of auction and liquidation contracts. If the amount realized from the sale or disposition of assets, net of direct operating expenses, does not equal or exceed the purchase price (in purchase transaction), we will recognize a loss on the engagement, or should the amount realized, net of direct operating expenses, not equal or exceed the “guarantee,” we are still required to pay the guaranteed amount to the client.

***We could incur losses in connection with outright purchase transactions in which we engage as part of our auction and liquidation solutions business.***

When we conduct an asset disposition or liquidation on an outright purchase basis, we purchase from the client the assets or inventory to be sold or liquidated and therefore, we hold title to any assets or inventory that we are not able to sell. In other situations, we may acquire assets from our clients if we believe that we can identify a potential buyer and sell the assets at a premium to the price paid. We store these unsold or acquired assets and inventory until they can be sold or, alternatively, transported to the site of a liquidation of comparable assets or inventory that we are conducting. If we are forced to sell these assets for less than we paid, or are required to transport and store assets multiple times, the related expenses could have a material adverse effect on our results of operations.

***We depend on financial institutions as primary clients for our valuation and appraisal business. Consequently, the loss of any financial institutions as clients may have an adverse impact on our business.***

A majority of the revenue from our valuation and appraisal business is derived from engagements by financial institutions. As a result, any loss of financial institutions as clients of our valuation and advisory services, whether due to changing preferences in service providers, failures of financial institutions or mergers and consolidations within the finance industry, could significantly reduce the number of existing, repeat and potential clients, thereby adversely affecting our revenues. In addition, any larger financial institutions that result from mergers or consolidations in the financial services industry could have greater leverage in negotiating terms of engagements with us, or could decide to internally perform some or all of the valuation and appraisal services which we currently provide to one of the constituent institutions involved in the merger or consolidation or which we could provide in the future. Any of these developments could have a material adverse effect on our valuation and appraisal business.

***We may face liability or harm to our reputation as a result of a claim that we provided an inaccurate appraisal or valuation and our insurance coverage may not be sufficient to cover the liability.***

We could face liability in connection with a claim by a client that we provided an inaccurate appraisal or valuation on which the client relied. Any claim of this type, whether with or without merit, could result in costly litigation, which could divert management's attention and company resources and harm our reputation. Furthermore, if we are found to be liable, we may be required to pay damages. While our appraisals and valuations are typically provided only for the benefit of our clients, if a third party relies on an appraisal or valuation and suffers harm as a result, we may become subject to a legal claim, even if the claim is without merit. We carry insurance for liability resulting from errors or omissions in connection with our appraisals and valuations; however, the coverage may not be sufficient if we are found to be liable in connection with a claim by a client or third party.

***We could be forced to mark down the value of certain assets acquired in connection with outright purchase transactions.***

In most instances, inventory is reported on the balance sheet at its historical cost; however, according to U.S. Generally Accepted Accounting Principles, inventory whose historical cost exceeds its market value should be valued conservatively, which dictates a lower value should apply. Accordingly, should the replacement cost (due to technological obsolescence or otherwise), or the net realizable value of any inventory we hold be less than the cost paid to acquire such inventory (purchase price), we will be required to “mark down” the value of such inventory held. If the value of any inventory held on our balance sheet, including, but not limited to, oil rigs and other equipment related to the oil exploration business and airplane parts, is required to be written down, such write down could have a material adverse effect on our financial position and results of operations.

***We operate in highly competitive industries. Some of our competitors may have certain competitive advantages, which may cause us to be unable to effectively compete with or gain market share from our competitors.***

We face competition with respect to all of our service areas. The level of competition depends on the particular service area and category of assets being liquidated or appraised. We compete with other companies and investment banks to help clients with their corporate finance and capital needs. In addition, we compete with companies and online services in the bidding for assets and inventory to be liquidated. The demand for online solutions continues to grow and our online competitors include other e-commerce providers, auction websites such as eBay, as well as government agencies and traditional liquidators and auctioneers that have created websites to further enhance their product offerings and more efficiently liquidate assets. We expect the market to become even more competitive as the demand for such services continues to increase and 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 surplus assets and inventory and those of third parties.

We also compete with other providers of valuation and advisory services. Competitive pressures within the valuation and appraisal services market, including a decrease in the number of engagements and/or a decrease in the fees which can be charged for these services, could affect revenues from our valuation and appraisal services as well as our ability to engage new or repeat clients. We believe that given the relatively low barriers to entry in the valuation and appraisal services market, this market may become more competitive as the demand for such services increases.

Some of our 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 more resources to website and systems development than we are able to do. Any inability on our part to effectively compete could have a material adverse effect on our financial condition, growth potential and results of operations.

We compete with specialized investment banks to provide financial and investment banking services to small and middle-market companies. Middle-market investment banks provide access to capital and strategic advice to small and middle-market companies in our target industries. We compete with those investment banks on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, transaction execution, innovation, price, market focus and the relative quality of our products and services. We have experienced intense competition over obtaining advisory mandates in recent years, and we may experience pricing pressures in our investment banking business in the future as some of our competitors seek to obtain increased market share by reducing fees. Competition in the middle-market may further intensify if larger Wall Street investment banks expand their focus to this sector of the market. Increased competition could reduce our market share from investment banking services and our ability to generate fees at historical levels.

We also face increased competition due to a trend toward consolidation. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. This trend was amplified in connection with the unprecedented disruption and volatility in the financial markets during the past several years, and, as a result, a number of financial services companies have merged, been acquired or have fundamentally changed their respective business models. Many of these firms may have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services in an effort to gain market share, which could result in pricing pressure in our businesses.

***If we are unable to attract and retain qualified personnel, we may not be able to compete successfully in our industry.***

Our future success depends to a significant degree upon the continued contributions of senior management and the ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations; therefore, we may not be able to retain our existing personnel or fill new positions or vacancies created by expansion or turnover at existing compensation levels. Although we have entered into

employment agreements with key members of the senior management team, there can be no assurances such key individuals will remain with us. The loss of any of our executive officers or other key management personnel would disrupt our operations and divert the time and attention of our remaining officers and management personnel which could have an adverse effect on our results of operations and potential for growth.

We also face competition for highly skilled employees with experience in our industry, which requires a unique knowledge base. We may be unable to recruit or retain other existing technical, sales and client support personnel that are critical to our ability to execute our business plan.

***We frequently use borrowings under credit facilities in connection with our guaranty engagements, in which we guarantee a minimum recovery to the client, and outright purchase transactions.***

In engagements where we operate on a guaranty or purchase basis, we are typically required to make an upfront payment to the client. If the upfront payment is less than 100% of the guarantee or the purchase price in a “purchase” transaction, we may be required to make successive cash payments until the guarantee is met or we may issue a letter of credit in favor of the client. Depending on the size and structure of the engagement, we may borrow under our credit facilities and may be required to issue a letter of credit in favor of the client for these additional amounts. If we lose any availability under our credit facilities, are unable to borrow under credit facilities and/or issue letters of credit in favor of clients, or borrow under credit facilities and/or issue letters of credit on commercially reasonable terms, we may be unable to pursue large liquidation and disposition engagements, engage in multiple concurrent engagements, pursue new engagements or expand our operations. We are required to obtain approval from the lenders under our existing credit facilities prior to making any borrowings thereunder in connection with a particular engagement. Any inability to borrow under our credit facilities, or enter into one or more other credit facilities on commercially reasonable terms may have a material adverse effect on our financial condition, results of operations and growth.

***Defaults under our credit agreements could have an adverse impact on our ability to finance potential engagements.***

The terms of our credit agreements contain a number of events of default. Should we default under any of our credit agreements in the future, lenders may take any or all remedial actions set forth in such credit agreement, including, but not limited to, accelerating payment and/or charging us a default rate of interest on all outstanding amounts, refusing to make any further advances or issue letters of credit, or terminating the line of credit. As a result of our reliance on lines of credit and letters of credit, any default under a credit agreement, or remedial actions pursued by lenders following any default under a credit agreement, may require us to immediately repay all outstanding amounts, which may preclude us from pursuing new liquidation and disposition engagements and may increase our cost of capital, each of which may have a material adverse effect on our financial condition and results of operations.

***If we cannot meet our future capital requirements, we may be unable to develop and enhance our services, take advantage of business opportunities and respond to competitive pressures.***

We may need to raise additional funds in the future to grow our business internally, invest in new businesses, expand through acquisitions, enhance our current services or respond to changes in our target markets. If we raise additional capital through the sale of equity or equity derivative securities, the issuance of these securities could result in dilution to our existing stockholders. If additional funds are raised through the issuance of debt securities, the terms of that debt could impose additional restrictions on our operations or harm our financial condition. Additional financing may be unavailable on acceptable terms.

***We are subject to net capital and other regulatory capital requirements; failure to comply with these rules would significantly harm our business.***

B. Riley & Co., LLC, our broker-dealer subsidiary, is subject to the net capital requirements of the SEC, FINRA, and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Failure to maintain the required net capital may subject a firm to limitation of its activities, including suspension or revocation of its registration by the SEC and suspension or expulsion by FINRA and other regulatory bodies, and ultimately may require its liquidation. Failure to comply with the net capital rules could have material and adverse consequences, such as:

- limiting our operations that require intensive use of capital, such as underwriting or trading activities; or

restricting us from withdrawing capital from our subsidiaries, when our broker-dealer subsidiary has more than the minimum amount of required capital. This, in turn, could limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt and/or repurchase our shares.

In addition, a change in the net capital rules or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements, or a significant operating loss or any large charge against net capital, could have similar adverse effects.

Furthermore, B. Riley & Co., LLC is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to B. Riley Financial, Inc. As a holding company, B. Riley Financial, Inc. depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments, if any, and to fund all payments on its obligations, including debt obligations. As a result, regulatory actions could impede access to funds that B. Riley Financial, Inc. needs to make payments on obligations, including debt obligations, or dividend payments. In addition, because B. Riley Financial, Inc. holds equity interests in the firm's subsidiaries, its rights as an equity holder to the assets of these subsidiaries may not materialize, if at all, until the claims of the creditors of these subsidiaries are first satisfied.

***We may incur losses as a result of ineffective risk management processes and strategies.***

We seek to monitor and control our risk exposure through operational and compliance reporting systems, internal controls, management review processes and other mechanisms. Our investing and trading processes seek to balance our ability to profit from investment and trading positions with our exposure to potential losses. While we employ limits and other risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate economic and financial outcomes or the specifics and timing of such outcomes. Thus, we may, in the course of our investment and trading activities, incur losses, which may be significant.

In addition, we are investing our own capital in our funds and funds of funds as well as principal investing activities, and limitations on our ability to withdraw some or all of our investments in these funds or liquidate our investment positions, whether for legal, reputational, illiquidity or other reasons, may make it more difficult for us to control the risk exposures relating to these investments.



***Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks.***

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. We seek to manage, monitor and control our operational, legal and regulatory risk through operational and compliance reporting systems, internal controls, management review processes and other mechanisms; however, there can be no assurance that our procedures will be fully effective. Further, our risk management methods may not effectively predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, some of our risk management methods are based on an evaluation of information regarding markets, clients and other matters that are based on assumptions that may no longer be accurate. A failure to adequately manage our growth, or to effectively manage our risk, could materially and adversely affect our business and financial condition.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, and breach of contract or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. As an introducing broker, we could be held responsible for the defaults or misconduct of our customers. These may present credit concerns, and default risks may arise from events or circumstances that are difficult to detect, foresee or reasonably guard against. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. If any of the variety of instruments, processes and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

***Our common stock price may fluctuate substantially, and your investment could suffer a decline in value.***

The market price of our common stock may be volatile and could fluctuate substantially due to many factors, including, among other things:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant contracts and transactions by us or our competitors;
- sale of common stock or other securities in the future;
- the trading volume of our common stock;

- changes in our pricing policies or the pricing policies of our competitors; and
- general economic conditions.

In addition, the stock market in general and the market for our shares have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market factors may materially harm the market price of our common stock, regardless of our operating performance.

***There is a limited market for our common shares and the trading price of our common shares is subject to volatility.***

Our common shares began trading on the over-the-counter bulletin board in August 2009, and we only recently obtained approval to list and trade our shares on The NASDAQ Stock Market LLC's NASDAQ Capital Market on July 16, 2015. Trading of our common stock has in the past been highly volatile with low trading volume and an active trading market for shares of our common stock may not develop. In such case, selling shares of our common stock may be difficult because the limited trading market for our shares could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume. Further, the market price of shares of our common stock could continue to fluctuate substantially. Additionally, if we are not able to maintain our recently obtained listing on the NASDAQ Capital Market, then our common stock will again be quoted for trading on an over-the-counter quotation system and may be subject to more significant fluctuations in stock price and trading volume.

***Our amended and restated certificate of incorporation authorizes our board of directors to issue new series of preferred stock that may have the effect of delaying or preventing a change of control, which could adversely affect the value of your shares.***

Our amended and restated certificate of incorporation provides that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 1,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change of control of our company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

***Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control and could also limit the market price of our stock.***

Our amended and restated certificate of incorporation and our bylaws, as amended, contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. For example, while such structure is currently in the process of being phased out by 2017 following amendments we adopted in October 2014, our certificate of incorporation and bylaws historically provided that our board of directors is classified into three classes of directors, with each class elected at a separate election. Until such phase-out is complete, the existence of a staggered board could delay or prevent a potential acquirer from obtaining majority control of our board, and thus defer potential acquisitions. We are also governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated certificate of incorporation, our bylaws, as amended, and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

***We may incur significant loss of revenues from European operations in connection with the restructuring and reduction of our European operations.***

As a result of the strategic review of our operations we conducted in connection with our acquisition of BRC, we implemented cost savings measures in the third quarter of 2014 that resulted in a reduction in corporate overhead and the restructuring of our operations in Europe, including a reduction in force for some of our corporate employees and a significant number of our employees in the United Kingdom. In connection with such strategic review, we also restructured our UK appraisal business whereby we entered into a joint marketing and strategic alliance with an entity owned and controlled by our former UK appraisal senior management. As a result of such restructuring and reductions in force, revenues from our operations in Europe are expected to significantly decrease in the future.

***Our ability to use net loss carryovers to reduce our taxable income may be limited.***

As a result of the common stock offering that was completed on June 5, 2014, the Company had a more than 50% ownership shift in accordance with Internal Revenue Code Section 382. Accordingly, the Company may be limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company's actual taxable income. As of December 31, 2014, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods before the loss carryforwards expire and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance. However, to the extent that the Company is unable to utilize such net operating loss, it may have a material adverse effect on our financial condition and results of operations.

***Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.***

Firms in the financial services industry have been operating in a difficult regulatory environment which we expect will become even more stringent in light of recent well-publicized failures of regulators to detect and prevent fraud. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to carry on particular businesses. For example, a failure to comply with the obligations imposed by the Exchange Act on broker-dealers and the Investment Advisers Act of 1940 on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or FINRA or other self-regulatory organizations that supervise the financial markets. Substantial legal liability or significant regulatory action against us could have adverse financial effects on us or cause reputational harm to us, which could harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly review and update our policies, controls and procedures. However, appropriately addressing conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address conflicts of interest. Our policies and procedures to address or limit actual or perceived conflicts may also result in increased costs and additional operational personnel. Failure to adhere to these policies and procedures may result in regulatory sanctions or litigation against us. For example, the research operations of investment banks have been and remain the subject of heightened regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking professionals at securities firms. Several securities firms in the U.S. reached a global settlement in 2003 and 2004 with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into the alleged conflicts of interest of research analysts, which resulted in rules that have imposed additional costs and limitations on the conduct of our business.

Asset management businesses have experienced a number of highly publicized regulatory inquiries which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. We are registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and

asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this and other areas, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us. In addition, Congress is currently considering imposing new requirements on entities that securitize assets, which could affect our credit activities. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

***Recently enacted financial reforms and related regulations may negatively affect our business activities, financial position and profitability.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) institutes a wide range of reforms that will impact financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. For example, in January 2011 the SEC released its mandated study on the effectiveness of current legal and regulatory standards for broker-dealers and investment advisers, which may result in the imposition of fiduciary duties on broker-dealers. The legislation and regulation of financial institutions, both domestically and internationally, include calls to increase capital and liquidity requirements; limit the size and types of the activities permitted; and increase taxes on some institutions. FINRA’s oversight over broker-dealers and investment advisers may be expanded, and new regulations on having investment banking and securities analyst functions in the same firm may be created. Many of the provisions of the Dodd-Frank Act are subject to further rule making procedures and studies and will take effect over several years. As a result, we cannot assess the impact of these new legislative and regulatory changes on our business at the present time. However, these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our businesses. If we do not comply with current or future legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. Accordingly, such new legislation or regulation could have an adverse effect on our business, results of operations, cash flows or financial condition.

***Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.***

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our and our funds' and clients' investment and other activities. Certain of our funds have overlapping investment objectives, including funds which have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among ourselves and those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of the Company or other funds to take any action.

In addition, there may be conflicts of interest regarding investment decisions for funds in which our officers, directors and employees, who have made and may continue to make significant personal investments in a variety of funds, are personally invested. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between the Company and the funds.

We also have potential conflicts of interest with our investment banking and institutional clients including situations where our services to a particular client or our own proprietary or fund investments or interests conflict or are perceived to conflict with a client. It is possible that potential or perceived conflicts could give rise to investor or client dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which would materially adversely affect our business in a number of ways, including as a result of redemptions by our investors from our hedge funds, an inability to raise additional funds and a reluctance of counterparties to do business with us.

***Our exposure to legal liability is significant, and could lead to substantial damages.***

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In

addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

***Misconduct by our employees or by the employees of our business partners could harm us and is difficult to detect and prevent.***

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur at our firm. For example, misconduct could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases. Our ability to detect and prevent misconduct by entities with whom we do business may be even more limited. We may suffer reputational harm for any misconduct by our employees or those entities with whom we do business.



*We may not pay dividends regularly or at all in the future.*

Prior to the declaration of a dividend by our Board of Directors on October 29, 2014, we historically have not paid dividends on shares of our capital stock. From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. Our Board of Directors may reduce or discontinue dividends at any time for any reason it deems relevant and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will continue to pay dividends with the cash that we do generate. The determination regarding the payment of dividends is subject to the discretion of our Board of Directors, and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will pay dividends in future periods.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits filed as part of this Quarterly Report are listed in the index to exhibits immediately preceding such exhibits, which index to exhibits is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

B. Riley Financial,  
Inc.

Date: November 9, 2015 By: /s/ PHILLIP J. AHN  
Name: Phillip J. Ahn

Title: Chief Financial  
Officer and Chief  
Operating Officer

(Principal Financial  
Officer)

**Exhibit Index**

**Exhibit No. Description**

|          |  |
|----------|--|
| 3.1(1)   | Amended and Restated Certificate of Incorporation.   |
| 10.1(1)# | B. Riley Financial, Inc. Management Bonus Plan.  |
| 31.1*    | Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934 |
| 31.2*    | Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934 |
| 32.1*†   | Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2*†   | Certification required by 18 United States Code Section  |

1350, as  
adopted  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

\*

Filed herewith.

These exhibits are being “furnished” and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

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Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on August 18, 2015.