

B. Riley Financial, Inc.  
Form 10-K  
March 30, 2015

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

**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended December 31, 2014**

**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**

**Woodland Hills, CA**

(Address of Principal Executive Offices)

**91367**

(Zip Code)

**(818) 884-3737**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, par value \$0.0001 per share**

**(Title of Class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes:  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes:  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

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

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

The aggregate market value of the registrant's common stock held by non-affiliates, based on the closing price of the registrant's common stock as reported on the OTC Bulletin Board on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$44.9 million. For purposes of this calculation, it has been assumed that all shares of the registrant's common stock held by directors, executive officers and shareholders beneficially owning ten percent or more of the registrant's common stock are held by affiliates. The treatment of these persons as affiliates for purposes of this calculation is not conclusive as to whether such persons are, in fact, affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of March 23, 2015 was 16,301,940.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement relating to the registrant's 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report.

**B. RILEY FINANCIAL, INC.**

**INDEX TO ANNUAL REPORT ON FORM 10-K**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	28
Item 2. <u>Properties</u>	29
Item 3. <u>Legal Proceedings</u>	29
Item 4. <u>Mine Safety Disclosures</u>	29
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Selected Financial Data</u>	31
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 8. <u>Financial Statements and Supplementary Data</u>	54
Item 9. <u>Changes in and Disagreements With Accountants On Accounting and Financial Disclosure</u>	54
Item 9A. <u>Controls and Procedures</u>	55
Item 9B. <u>Other Information</u>	55
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	56
Item 11. <u>Executive Compensation</u>	56
Item 12. <u>Securities Ownership and Certain Beneficial Owners and Management and Related Stockholder Matters</u>	56
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	56
Item 14. <u>Principal Accounting Fees and Services</u>	56
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	57
<u>Signatures</u>	60



## PART I

This Annual Report on Form 10-K (this “Annual Report”) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “see,” “may,” “will,” “predict,” “potential,” “continue,” “estimate” and similar expressions are generally intended to identify forward-looking statements, but are not exclusive means of identifying forward-looking statements in this Annual Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the Securities and Exchange Commission (the “SEC”). Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed in “Part I—Item 1A. Risk Factors” contained in this Annual Report. 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. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

*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.*

## Item 1. BUSINESS

### *General*

We are a leading independent investment bank with offices in Los Angeles, Orange County, San Francisco and New York providing corporate finance, research, 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 segment provides investment banking, corporate finance, research, sales and trading services to corporate, institutional and high net worth clients. The divisions in our auction and liquidation segment assist clients in maximizing return and recovery rates through the efficient disposition of assets and provide clients with capital advisory and financing services. Such assets include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property. Our valuation and appraisal services segment provides our clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs.

Our capital markets segment provides a full array of investment banking, corporate finance, research, 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.

Our auction and liquidation solutions division 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 \$25 billion in aggregate asset value and auctioned assets with an estimated aggregate value of over \$6 billion.

Our valuation and appraisal services division 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 a material impact on our total revenues and operating profits. Historically, revenues from our auction and liquidation segment have comprised a significant amount of our total revenues and operating profits. During the years ended December 31, 2014, 2013 and 2012, revenues from our auction and liquidation segment were 35.0%, 55.7% and 57.5% 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. Revenues from liquidation service contracts and financing activities to one retailer and the sale of four oil rigs to one customer represented 10.7% and 12.2% of our total revenues during the year ended December 31, 2013. Revenues from liquidation service contracts and financing activities to two retailers represented 20.4% of our total revenues during the year ended December 31, 2012.

#### ***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 (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 our common stock for accounting purposes was determined based on the closing market price of our 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.

Revenues from the operations of BRC are reflected in the capital markets segment and totaled \$19.4 million for the period from June 18, 2014 to December 31, 2014. Capital markets segment revenues include revenues from investment banking fees of \$10.3 million, commissions and other income primarily earned from research, sales and trading of \$7.8 million, and trading income of \$1.3 million.

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, Mr. Riley owns approximately 24.7% of our outstanding common stock.

### ***Recent Developments***

On March 19, 2014, the Company entered into a separate credit agreement (the “UK Credit Agreement”) with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. We are permitted to borrow up to £50 million under the UK Credit Agreement. The interest rate for borrowings under this 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 borrowings. Any borrowings on the UK Credit Agreement reduce the availability on the \$100 million Wells Fargo asset based credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the \$100 million Wells Fargo asset based credit facility.

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 one of our offices 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.

In October 2014, we were engaged to liquidate the inventory for the going-out-of-business sale of 56 stores of Naartjie Kids, a fashionable children clothing retailer, located throughout the United States. We provided a minimum guarantee of amounts to be realized from the liquidation of inventory. We completed the liquidation sale of inventory in late December 2014 and the amounts realized exceeded the minimum guarantee and we recognized revenue for these services in the fourth quarter of 2014.

In November 2014, we were engaged to participate in a joint venture involving the liquidation of inventory for the going-out-of-business sale of 198 stores of Alco Stores, a discount retailer serving consumers in smaller communities in the Midwest, Southeast and Southwestern portion of the United States. The joint venture provided Alco Stores with a minimum guarantee of amounts to be realized from the liquidation of inventory. The liquidation sale of inventory was completed in late February 2015 and the amounts realized from the liquidation of inventory will be finalized in the second quarter of 2015.

On January 2, 2015, we entered into a purchase agreement to acquire 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. Upon closing, we paid the shareholders of MK Capital \$2.5 million in cash and issued 333,333 shares of our common stock. The purchase agreement also requires the payment of contingent consideration of \$1.25 million in cash and 166,667 shares of our common stock on the first anniversary date of the closing (February 2, 2016) and a final payment of \$1.25 million in cash and 166,666 of our common stock on the second anniversary date of the closing (February 2, 2017). The contingent 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.

On January 11, 2015, Great American Group Energy Equipment, LLC ("GAGEE"), a wholly owned subsidiary of the Company that was formed for the purpose of acquiring oil rigs in 2008, 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 6). Total liabilities include a note payable in the amount of \$6.6 million that is collateralized by the assets of GAGEE. Under Chapter 7 of the Bankruptcy Code the assets of GAGEE will be liquidated and the resulting cash proceeds will be used by the bankruptcy trustee to pay creditors. As a result of the bankruptcy filing on January 11, 2015, the assets and liabilities of GAGEE described above will no longer be consolidated in the Company's consolidated financial statements for periods subsequent to the bankruptcy filing. At the present time, management does not expect the bankruptcy of GAGEE to 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 is expected to be completed in the second quarter of 2015.

In March 2015, in Europe 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 on March 9, 2015. The liquidation sale of inventory is expected to be completed in the second quarter of 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 is expected to be completed 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. (“Payee”) in accordance with the subordinated unsecured promissory note (the “RIP Note”). The borrowings are for short-term working capital needs and capital for other retail liquidation engagements. The principal amount of \$4.5 million for the RIP Note accrues interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The Payee is 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 shall the Company be obligated to pay to Payee any portion of the combined amount of interest and the Success Fee which exceeds 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, are due and payable by the Company on March 9, 2016. The RIP Note is 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 Payee. 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 Payee. In addition, Thomas Kelleher, the President of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of the Payee. 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.

### *Name Change*

On November 6, 2014, we changed our corporate name from Great American Group, Inc. to B. Riley Financial, Inc. (the “Name Change”). In connection with the Name Change, we also changed our trading symbol on the Over-the-Counter Bulletin Board from “GAMR” to “RILY”.

*Capital Markets Services*

***Investment Banking and Corporate Finance***

B. Riley investment banking professionals provide equity and debt capital raising, merger and acquisition and financial advisory services to both private and publicly traded companies. Those services include: follow-on public offerings, debt and equity private placements, debt refinancings, corporate debt and equity security repurchases, and buy-side and sell-side representation, divestitures/carveouts, leveraged buyouts, management buyouts, strategic alternatives reviews, fairness opinions, valuations, return-of-capital advisory, hostile/activist advisory, and options trading programs.

***Sales, Trading and Corporate Services***

Our sales and trading professionals distribute B. Riley proprietary research products to our institutional investor clients and high net worth individuals. B. Riley sales and trading also sells the securities of companies in which B. Riley acts as an underwriter and executes equity trades on behalf of clients. We maintain active trading relationships with substantially all major institutional money managers. Our equity and fixed income traders make markets in approximately 150 securities. Our corporate services include retail orders, block trades, Rule 144 transactions, cashless exercise of options, and corporate equity repurchase programs.

***Equity Research***

Our equity research is focused on fundamentals-based research. Our research focuses on an in-depth analysis of earnings, cash flow trends, balance sheet strength, industry outlook, and strength of management that involves extensive meetings with key management, competitors, channel partners and customers. We provide research on all sizes of firms; however, our research primarily focuses on small and mid-cap stocks that are under-followed by Wall Street. Our analysts regularly communicate their findings through Research Updates and daily Morning Notes.

Our research department includes research analysts maintaining coverage on a variety of companies in a variety of industry sectors. Our research department annually organizes non-deal road shows for issuers in our targeted industries. To provide our institutional clients access to management teams of companies in our coverage universe and others, our research department has held 16 consecutive annual institutional investor conferences.

*Auction and Liquidation Solutions*

***Retail***

We enable our clients to quickly and efficiently dispose of under-performing assets and generate cash from excess inventory by conducting or assisting in store closings, going out of business sales, bankruptcy sales and fixture sales. With the goal of providing a single-source solution to our retail clients, we also provide merger and acquisition due diligence through our auction and liquidation segment and reverse logistics and appraisal services through our valuation and appraisal services segment. Financial institution and other capital providers rely on us to maximize recovery rates in distressed asset sales and in retail bankruptcy situations. Additionally, healthy, mature retailers utilize our proven inventory management and strategic disposition solutions, relying on our extensive network of retail professionals, to close unproductive stores and dispose of surplus inventory and fixtures as existing stores are updated. For example, in a potential bankruptcy engagement, the debtor provides potential disposition firms with a snapshot of inventory and other assets available for sale. The disposition firms must analyze the inventory data and generate an estimate of potential recovery based on their valuation expertise and past liquidation experience. The disposition firms then submit bids that guarantee a minimum recovery based on a percentage of retail value or cost. The successful bidder assumes management of the debtor's stores on a contract basis and conducts the orderly disposition of the inventory and assets in these stores. Profits are generated by efficiently merchandizing inventory, managing the orderly closing of store locations and pricing remaining products to balance margin with speed of sale and liquidation expenses. Unlike merchandisers who employ a "top down" approach by focusing only on driving total sales (because overhead costs are fixed), disposition firms take a "bottom up" approach by focusing on balancing cost savings with maximizing proceeds. A typical retail disposition process spans eight to twelve weeks from the bankruptcy court's approval of the successful bid to the final store closure.

We often conduct large retail liquidations that entail significant capital requirements through collaborative arrangements with other liquidators. By entering into an agreement with one or more collaborators, we are able to bid on larger engagements that we couldn't conduct on our own due to the significant capital outlay involved, number of independent contractors required or financial risk associated with the particular engagement. We act as the lead partner in many of the collaborative arrangements that we enter into, meaning that we have primary responsibility for the due diligence, contract negotiation and execution of the engagement.

Revenues from one liquidation service contract to a retailer and the sale of four oil rigs to one customer represented 10.7% and 12.2% of total revenues during the year ended December 31, 2013. Revenues from one liquidation service contract to a retailer represented 14.4% of total revenues during the year ended December 31, 2012.

### ***Wholesale and Industrial***

We design and implement customized disposition programs for our clients seeking to convert excess wholesale and industrial inventory and operational assets into capital. We manage projects of all sizes and scopes across a variety of asset categories. We believe that our databases of information regarding potential buyers that we have collected from past transactions and engagements, our nationwide name recognition and experience with alternative distribution channels allow us to provide superior wholesale and industrial disposition services. We offer clients the following wholesale and industrial disposition strategies:

*Orderly Liquidations.* Assets in an orderly liquidation are available for sale on a privately negotiated basis over a period of months. Orderly liquidations work well for assets in large and repetitive quantities. This sale method is often employed to dispose of furniture, fixtures and equipment in connection with retail liquidations as well as wholesale inventory or industrial equipment for which a short term public auction sale is not feasible due to limited market demand or specialized application of the equipment.

*Live Auctions.* The live public auction is the most traditional sales technique for wholesale and industrial asset dispositions and one of our most frequently utilized services. In live auctions, bidders gather at a specified date and time to competitively bid against one another, with each item selling to the highest bidder. We believe that our auctioneers are recognized throughout the industry for their auctioneering skills, project experience, engaging personalities and ability to extract top prices. Our live auctions can cover single sites or multiple locations, and we utilize point-of-sale software to generate customized sales reports and invoices and to track assets.

*Webcast Auctions.* Increasingly, we have been webcasting our live auctions over the Internet. This auction format allows online bidders to compete in real time against bidders at the live auction. Bidders can log onto the auction from personal computers, view and bid on lots as they come up for sale, hear the auctioneers as the sale is being conducted and, in some cases, view live streaming video of the auctioneer calling the bids on-site. We believe that this auction format maximizes proceeds by providing access to otherwise unavailable potential bidders, including international participants, thereby increasing competition. In some cases, particularly when assets are located in remote areas that are not easily accessible to bidders, we may determine, in consultation with the client, that a webcast only auction is the most appropriate format.

*Online Auctions.* In the online auction format, the sale of assets takes place exclusively online, without a live auctioneer calling the sale. Similar to the timed auctions popularized by online auction sites such as eBay, assets are posted for sale online and buyers can bid on lots and items for a set period of time, usually one week. The online auction format is optimal for clients that have idle assets in quantities insufficient to justify the cost of a live auction.

*Wind Down Services.* When businesses or manufacturers discontinue operations in whole or in part, they are often faced with the challenge of converting large quantities of raw materials, work-in-process inventory and equipment into cash. We have the resources and expertise to analyze the cost effectiveness of continuing production to deplete inventory on hand as an alternative to conducting an auction of the inventory. We also provides advisory services relating to the wind down process from beginning to end, including negotiation of early lease terminations, sale of intellectual property and sale of completed inventory through the client's historical distribution channels.



### ***Capital Advisory Services***

We provide capital advisory services to clients with a concentration and focus in the retail industry that are in need of junior secured loans for growth capital, working capital, and turnaround financing. We advise borrowers and source loans between \$10 million and \$100 million to be secured by collateral assets of the borrowers, including inventory, accounts receivable, real estate and intellectual property.

### ***Generation of Revenue in the Auction and Liquidation Solutions***

We provide services to clients in our Auction and Liquidation Services segment on a guarantee, fee or outright purchase basis.

*Guarantee.* When providing services on a guarantee basis, we guarantee the client a specific recovery often expressed as a percentage of retail inventory value or wholesale inventory cost or, in the case of machinery or equipment, a set dollar amount. This guarantee is often required to be supported by a letter of credit, a cash deposit or a combination thereof. Cash deposits are typically funded in part with available cash together with short term borrowings under our credit facilities. Often when we provide auction or liquidation services on a guarantee basis, we do so through a collaborative arrangement with other service providers. In this situation, each collaborator agrees to provide a certain percentage of the guaranteed amount to the client through a combination of letters of credit, cash and financing. If we are engaged individually, we receive 100% of the net profit, less debt financing fees, sale related expenses (if any) and any share of the profits due to the client as a result of any profit sharing arrangement entered into based on a pre-negotiated formula. If the engagement was conducted through a collaborative arrangement, the profits or losses are divided among us and our partner or partners as set forth in the agreement governing the collaborative arrangement. If the net sales proceeds after expenses are less than the guarantee, we, together with our partners if the engagement was conducted through a collaborative arrangement, are responsible for the shortfall and will recognize a loss on the engagement.

*Fee.* When we provide services on a fee basis, clients pay a pre-negotiated flat fee for the services provided, a percentage of asset sales generated or a combination of both.

*Outright Purchase.* When providing services on an outright purchase basis, we purchase the assets from the client and typically sell them at auction, orderly liquidation, through a third-party broker or, less frequently, as augmented inventory in conjunction with another liquidation that we are conducting. In an outright purchase, we take, together with any collaboration partners, title to the assets and absorb the profit or loss associated with the asset disposition.

*Valuation and Appraisal Services*

Our valuation and appraisal teams provide independent appraisals to financial institutions, lenders and other providers of capital and other professional service firms for estimated liquidation values of assets. These teams include experts specializing in particular industry niches and asset classes. We provide valuation and appraisal services across five general categories:

*Consumer and Retail Inventory.* Representative types of appraisals and valuations include inventory of specialty apparel retailers, department stores, jewelry retailers, sporting goods retailers, mass and discount merchants, home furnishing retailers and footwear retailers.

*Wholesale and Industrial Inventory.* Representative types of appraisals and valuations include inventory held by manufacturers or distributors of automotive parts, chemicals, food and beverage products, wine and spirits, building and construction products, industrial products, metals, paper and packaging.

*Machinery and Equipment.* Representative types of asset appraisals and valuations include a broad range of equipment utilized in manufacturing, construction, transportation and healthcare.

*Intangible Assets.* Representative types of asset appraisals and valuations include intellectual property, goodwill, brands, logos, trademarks and customer lists.

*Real Estate.* Representative types of asset appraisals and valuations include owned and leased manufacturing and distribution facilities, retail locations and corporate offices. We do not perform appraisals of residential properties.

We provide valuation and appraisal services on a pre-negotiated flat fee basis.

### *UK Retail Stores*

We previously operated ten retail footwear stores in the United Kingdom as a result of our acquisition of Shoon Trading Limited (“Shoon”) on May 4, 2012. Revenues from the sale of goods in our UK retail stores segment were recognized as revenue upon the sale of product to retail customers. 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. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales. In August 2013, the Shoon shareholder agreement was amended and restated to eliminate our control rights. As a result of this amendment, Shoon’s operating results are not consolidated with the Company’s for any periods after July 31, 2013. Notwithstanding the deconsolidation, our operating results for periods from July 31, 2013 to January 2014 include the income (loss) from our 44.4% equity investment in the common stock of Shoon. In January 2014, Shoon was sold to a third party, and we no longer have a financial interest in the operations of Shoon.

### *Customers*

We serve retail, corporate, capital provider and individual customers across our services lines. Revenues from one liquidation service contract and the sale of four oil rigs to one customer represented 10.7% and 12.2% of total revenues during the year ended December 31, 2013. Revenues from one liquidation service contract and financing activities to another retailer represented 14.4% and 6.0% of total revenues during the year ended December 31, 2012. The services provided to these customers were under short-term liquidation contracts that generally do not exceed a period of six months. There were no recurring revenues from year-to-year in connection with the services we performed under these contracts.

### *Capital Markets Services*

We are engaged by corporate customers, including publicly held and privately owned companies, to provide investment banking, corporate finance, research and sales and trading services. We also provide corporate finance, research, and sales and trading services to high net worth individuals. We maintain client relationships with companies in the consumer goods, consumer services, defense, industrials and technology industries.

### *Auction and Liquidation Solutions*

Our retail auction and liquidation solution clients include financially healthy retailers as well as distressed retailers, bankruptcy professionals, financial institution workout groups and a wide range of professional service providers. Some retail segments in which we specialize include apparel, arts and crafts, department stores, discount stores, drug / health and beauty, electronics, footwear, grocery stores, hardware / home improvement, home goods and linens, jewelry, office / party supplies, specialty stores, and sporting goods. Recent clients include Blockbuster Video, Borders Group, Comet, Circuit City, Friedman's Jewelers, Fortunoff, Mervyns, Orchard Supply Hardware, Office Depot, Target, Tower Records, TJ Hughes, Hancock Fabrics, Movie Gallery, Linens N Things, Kmart, Sears and Whitehall Jewelers.

We provide wholesale and industrial auction services and customized disposition programs to a wide range of clients. Specifically, we have experience in providing auction and liquidation solutions to the following industries: aircraft / aerospace, casino / hospitality, construction / mining / earthmoving, food and beverage processing, hospital / medical, machine tools / metalworking, material handling, packaging / bottling, plastics and rubber processing, printing / bindery, pulp processing / paper converting, restaurant / bar / bakery, retail / trade fixtures, stadium / arena, textile / apparel, transportation / rolling stock, warehouse / distribution centers, and woodworking / lumber. Representative recent clients include Boeing, Hollywood Park, Stardust Hotel & Casino, Midas International, James River Coal Company, Lillian Vernon, and Saint Vincent Medical Center of New York.

#### *Valuation and Appraisal Services*

We are engaged by financial institutions, lenders, private equity investors and other capital providers, as well as professional service providers, to provide valuation and advisory services. We have extensive experience in the appraisal and valuation of retail and consumer inventories, wholesale and industrial inventories, machinery and equipment, intellectual property and real estate. We maintain ongoing client relationships with major asset based lenders including Bank of America, Citibank, Deutsche Bank, GE Capital, HSBC, JPMorgan Chase, SunTrust Bank, Union Bank of California, US Bank, and Wells Fargo Retail Finance. In addition, our clients include private equity firms such as Apollo Management, Goldman Sachs Capital Partners, and Sun Capital Partners.

## *Competition*

We also face intense competition for our capital markets services. Since the mid-1990s, there has been substantial consolidation among U.S. and global financial institutions. In particular, a number of large commercial banks, insurance companies and other diversified financial services firms have merged with other financial institutions or have established or acquired broker-dealers. During 2008, the failure or near-collapse of a number of very large financial institutions led to the acquisition of several of the most sizeable U.S. investment banking firms, consolidating the financial industry to an even greater extent. Currently, our competitors are other investment banks, bank holding companies, brokerage firms, merchant banks and financial advisory firms. Our focus on our target industries also subjects us to direct competition from a number of specialty securities firms and smaller investment banking boutiques that specialize in providing services to these industries.

The industry trend toward consolidation has significantly increased the capital base and geographic reach of many of our competitors. Our larger and better-capitalized competitors may be better able than we are to respond to changes in the investment banking industry, to recruit and retain skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. Many of these firms have the ability to offer a wider range of products than we do, including loans, deposit-taking and insurance, in addition to brokerage, asset management and investment banking services, all of which may enhance their competitive position relative to us. These firms also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in downward pricing pressure in our businesses. In particular, the trend in the equity underwriting business toward multiple book runners and co-managers has increased the competitive pressure in the investment banking industry and has placed downward pressure on average transaction fees.

As we seek to expand our asset management business, we face competition in the pursuit of investors for our investment funds, in the identification and completion of investments in attractive portfolio companies or securities, and in the recruitment and retention of skilled asset management professionals.

We also face intense competition in our other service areas. While some competitors are unique to specific service offerings, some competitors cross multiple service offerings. A number of companies provide services or products to the auction and liquidation and valuation and appraisal markets, and existing and potential clients can, or will be able to, choose from a variety of qualified service providers. Some of our competitors may even be able to offer discounts or other preferred pricing arrangements. In a cost-sensitive environment, such arrangements may prevent us from acquiring new clients or new engagements with existing clients. Some of our competitors may be able to negotiate secure alliances with clients and affiliates on more favorable terms, devote greater resources to marketing and promotional campaigns or to the development of technology systems than us. In addition, new technologies and the expansion of existing technologies with respect to the online auction business may increase the competitive pressures on us. We must also compete for the services of skilled professionals. There can be no assurance that we will be able to compete successfully against current or future competitors, and competitive pressures we face could harm our business, operating results and financial condition.

We face competition for our retail services from traditional liquidators as well as Internet-based liquidators such as overstock.com and eBay. Our wholesale and industrial services competitors include traditional auctioneers and fixed site auction houses that may specialize in particular industries or geographic regions as well as other large, prestigious or well-recognized auctioneers. We also face competition and pricing pressure from the internal remarketing groups of our clients and potential clients and from companies that may choose to liquidate or auction assets and/or excess inventory without assistance from service providers like us. We face competition for our valuation and appraisal services from large accounting, consulting and other professional service firms as well as other valuation, appraisal and advisory firms.

### ***Regulation***

We are subject to federal and state consumer protection laws, including regulations prohibiting unfair and deceptive trade practices. In addition, numerous states and municipalities regulate the conduct of auctions and the liability of auctioneers. We and/or our auctioneers are licensed or bonded in the following states where we conduct, or have conducted, retail, wholesale or industrial asset auctions: California, Florida, Georgia, Illinois, Massachusetts, Ohio, South Carolina, Texas, Virginia and Washington. In addition, we are licensed or obtain permits in cities and/or counties where we conduct auctions, as required. If we conduct an auction in a state where we are not licensed or where reciprocity laws do not exist, we will work with an auctioneer of record in such state.

As a participant in the financial services industry, we are subject to complex and extensive regulation of most aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations and securities exchanges. The laws, rules and regulations comprising the regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules and regulations. The effect of any such changes cannot be predicted and may direct the manner of our operations and affect our profitability.

Our broker-dealer subsidiary, BRC, is subject to regulations governing every aspect of the securities business, including the execution of securities transactions; capital requirements; record-keeping and reporting procedures; relationships with customers, including the handling of cash and margin accounts; the experience of and training requirements for certain employees; and business interactions with firms that are not members of regulatory bodies.

BRC is registered as a securities broker-dealer with the SEC and is a member of FINRA. FINRA is a self-regulatory body composed of members such as our broker-dealer subsidiary that have agreed to abide by the rules and regulations of FINRA. FINRA may expel, fine and otherwise discipline member firms and their employees. BRC is also licensed as a broker-dealer in 18 states in the U.S., requiring us to comply with the laws, rules and regulations of each such state. Each state may revoke the license to conduct securities business, fine and otherwise discipline broker-dealers and their employees. We are also registered with NASDAQ and must comply with its applicable rules.

BRC is also subject to the SEC's Uniform Net Capital Rule, Rule 15c3-1, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiary. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. In addition, BRC is subject to certain notification requirements related to withdrawals of excess net capital.

We are also subject to the USA PATRIOT Act of 2001 (the Patriot Act), which imposes obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and customer verification, and other compliance policies and procedures. The conduct of research analysts is also the subject of rule-making by the SEC, FINRA and the federal government through the Sarbanes-Oxley Act. These regulations require certain disclosures by, and restrict the activities of, research analysts and broker-dealers, among others. Failure to comply with these requirements may result in monetary, regulatory and, in the case of the USA Patriot Act, criminal penalties.

Our asset management subsidiaries, BRH and RAM are SEC-registered investment advisers, and accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act of 1940 include record-keeping, advertising and operating requirements, and prohibitions on fraudulent activities.

Various regulators, including the SEC, FINRA and state securities regulators and attorneys general, are conducting both targeted and industry-wide investigations of certain practices relating to the financial services industry, including marketing, sales practices, valuation practices, asset managers, and market and compensation arrangements. These investigations, which have been highly publicized, have involved mutual fund companies, broker-dealers, hedge funds, investors and others.

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.

In July 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank 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. Many of the provisions of the Dodd-Frank Act are subject to further rulemaking 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.

### ***Employees***

As of December 31, 2014, we had 221 full time employees and four part time employees. We are not a party to any collective bargaining agreements. We have never experienced a work stoppage or strike and believe that relations with our employees are good.

We rely significantly on the expertise of independent contractors whom we engage in connection with specific transactions. As of December 31, 2014, we maintained a network of approximately 160 independent contractors who we engage from time to time to provide services pursuant to the terms of independent contractor agreements.

### ***Available Information***

We maintain a website at [www.brileyfin.com](http://www.brileyfin.com). We file reports with the Securities and Exchange Commission ("SEC"), and make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not a part of, or incorporated in, this Annual Report.



## 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 34.3% of our outstanding common stock as of December 31, 2014. 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 24.7% of our outstanding common stock as of December 31, 2014. 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:

- delaying, 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 shares traded on the OTCBB in particular, 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 OTCBB in August 2009, following the completion of the Acquisition. The trading market for our common shares is limited and an active trading market may not develop. Selling our common shares may be difficult because the limited trading market for our shares on the OTCBB could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume.

***Our 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 certificate of incorporation, as amended, provides that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 10,000,000 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 certificate of incorporation, as amended, 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 certificate of incorporation, our bylaws 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 1B. UNRESOLVED STAFF COMMENTS**

None.

28



**Item 2. PROPERTIES**

Our headquarters are located in Woodland Hills, California in a leased facility. The following table sets forth the location and use of each of our properties, all of which are leased as of December 31, 2014.

<b>Location</b>	<b>Use</b>
Woodland Hills, California	Headquarters; Accounting, Information Technology and Human Resources offices; Appraisal and Auction offices
Los Angeles, California	Capital Markets office
Newport Beach, California	Capital Markets office
San Francisco, California	Capital Markets office
Norwalk, Connecticut	Capital Advisory Services office
Atlanta, Georgia	Marketing office
Chicago, Illinois	Appraisal and Marketing office
Boston, Massachusetts	Capital Markets, Appraisal and Marketing offices
Needham, Massachusetts	Appraisal office
New York, New York	Capital Markets, Appraisal and Marketing offices
Charlotte, North Carolina	Marketing office
Winston-Salem, North Carolina	Marketing office
Toledo, Ohio	Marketing office
Dallas, Texas	Appraisal and Marketing office
Milwaukee, Wisconsin	Marketing office
Munich, Germany	Marketing office

We believe that our existing facilities are suitable and adequate for the business conducted therein, appropriately used and have sufficient capacity for their intended purpose.

**Item 3. LEGAL PROCEEDINGS**

From time to time, we are involved in litigation which arises in the normal course of our business 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 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Stock Market and Other Information

Our common stock is traded on the OTC Bulletin Board under the symbol: “RILY”.

The following table sets forth the high and low closing sale prices of a share of our Common Stock as reported by the OTC Bulletin Board on a quarterly basis for the years ended December 31, 2013 and 2014. Such prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The liquidity of our shares on the OTC Bulletin Board is extremely limited, and prices quoted may not be a reliable indication of the value of our Common Stock.

	High	Low
2013:		
Quarter ended March 31, 2013	\$7.80	\$6.00
Quarter ended June 30, 2013	9.80	6.80
Quarter ended September 30, 2013	7.60	5.40
Quarter ended December 31, 2013	6.00	3.60
2014:		
Quarter ended March 31, 2014	\$6.00	\$5.00
Quarter ended June 30, 2014	10.40	2.80
Quarter ended September 30, 2014	8.15	7.40
Quarter ended December 31, 2014	9.90	7.45

As of March 17, 2015, there were approximately 79 holders of record of our Common Stock. This number does not include beneficial owners holding shares through nominees or in “street” name.

### Dividend Policy

On October 29, 2014, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about December 9, 2014 to stockholders of record on November 18, 2014. 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 the payment of dividends at any time for any reason it deems relevant. 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.

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data as of and for each of the five fiscal years ended December 31, 2014, and is derived from our Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2014 and 2013, and for each of the years in the three-year period ended December 31, 2014, are included elsewhere in this report. The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes thereto included elsewhere in this report.

**Consolidated Statement of Operations Data:**

(Dollars in thousands except share and per share data)

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Revenues:					
Services and fees	\$67,257	\$59,967	\$65,624	\$60,627	\$37,026
Sale of goods	9,859	16,165	18,312	2,899	5,119
Total revenues	77,116	76,132	83,936	63,526	42,145
Operating expenses:					
Direct cost of services	23,466	24,146	23,911	19,749	15,417
Cost of goods sold	14,080	11,506	12,750	3,391	6,674
Selling, general and administrative	44,453	36,382	39,834	32,946	31,413
Restructuring charge	2,548	—	—	—	—
Total operating expenses	84,547	72,034	76,495	56,086	53,504
Operating (loss) income	(7,431 )	4,098	7,441	7,440	(11,359 )
Other income (expense):					
Interest income	12	26	201	476	522
Loss from equity investment in Great American Group Real Estate, LLC and Shoon Trading Limited	—	(177 )	(120 )	(369 )	(1,640 )
Gain from bargain purchase	—	—	1,366	—	—
Interest expense	(1,262 )	(2,667 )	(2,612 )	(4,885 )	(3,667 )
(Loss) income from operations before income taxes	(8,681 )	1,280	6,276	2,662	(16,144 )
Benefit (provision) for income taxes	2,886	(704 )	(1,936 )	(2,060 )	5,106
Net (loss) income	(5,795 )	576	4,340	602	(11,038 )
Net income (loss) attributable to noncontrolling interests	6	(482 )	819	—	—
Net (loss) income attributable to B. Riley Financial, Inc.	\$(5,801 )	\$1,058	\$3,521	\$602	\$(11,038 )
Basic (loss) earnings per share	\$(0.60 )	\$0.74	\$2.46	\$0.42	\$(7.70 )

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

Diluted (loss) earnings per share	\$ (0.60 )	\$ 0.71	\$ 2.38	\$ 0.41	\$ (7.70 )
Weighted average basic shares outstanding	9,612,154	1,434,107	1,434,107	1,434,107	1,434,107
Weighted average diluted shares outstanding	9,612,154	1,494,328	1,480,671	1,477,548	1,434,107

**Consolidated Balance Sheet Data:**

**(Dollars in thousands)**

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Cash and cash equivalents	\$ 21,600	\$ 18,867	\$ 18,721	\$ 15,034	\$ 20,080
Restricted cash	7,657	325	7,923	—	—
Total assets	138,990	73,677	80,583	76,358	72,274
Total current liabilities	41,911	29,069	34,275	32,394	28,966
Total long-term liabilities	—	48,759	50,483	52,220	52,211
Total equity (deficit)	97,079	(4,151 )	(4,175 )	(8,256 )	(8,903 )

**Item 7. 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 Annual 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 I of this Annual 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 corporate finance, research, 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, 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.

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 \$25 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 years ended December 31, 2014, 2013 and 2012, revenues from our auction and liquidation segment were 35.0%, 55.7% and 57.5% 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. Revenues from liquidation service contracts and financing activities to one retailer and the sale of four oil rigs to one customer represented 10.7% and 12.2% of our total revenues during the year ended December 31, 2013. Revenues from liquidation service contracts and financing activities to two retailers represented 20.4% of our total revenues during the year ended December 31, 2012.

### ***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 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.

Revenues from the operations of BRC are reflected in the capital markets segment and totaled \$19.4 million for the period from June 18, 2014 to December 31, 2014. Capital markets segment revenues include revenues from investment banking fees of \$10.3 million, commissions and other income primarily earned from research, sales and trading of \$7.8 million, and trading income of \$1.3 million.

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 24.7% of our outstanding common stock.

### ***Recent Developments***

On March 19, 2014, the Company entered into a separate credit agreement (the "UK Credit Agreement") with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. We are permitted to borrow up to £50 million under the UK Credit Agreement. The interest rate for borrowings under this 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 borrowings. Any borrowings on the UK Credit Agreement reduce the availability on the \$100 million Wells Fargo asset based credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the \$100 million Wells Fargo asset based credit facility.

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.

In October 2014, we were engaged to liquidate the inventory for the going-out-of-business sale of 56 stores of Naartjie Kids, a fashionable children clothing retailer, located throughout the United States,. We provided a minimum guarantee of amounts to be realized from the liquidation of inventory. We completed the liquidation sale of inventory in late December 2014 and the amounts realized exceeded the minimum guarantee and we recognized revenue for these services in the fourth quarter of 2014.

In November 2014, we were engaged to participate in a joint venture involving the liquidation of inventory for the going-out-of-business sale of 198 stores of Alco Stores, a discount retailer serving consumers in smaller communities in the Midwest, Southeast and Southwestern portion of the United States. The joint venture provided Alco Stores with a minimum guarantee of amounts to be realized from the liquidation of inventory. The liquidation sale of inventory was completed in late February 2015 and the amounts realized from the liquidation of inventory will be finalized in the second quarter of 2015.

On January 2, 2015, we entered into a purchase agreement to acquire 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. Upon closing, we paid the shareholders of MK Capital \$2.5 million in cash and issued 333,333 shares of our common stock. The purchase agreement also requires the payment of contingent consideration of \$1.25 million in cash and 166,667 shares of our common stock on the first anniversary date of the closing (February 2, 2016) and a final payment of \$1.25 million in cash and 166,666 of our common stock on the second anniversary date of the closing (February 2, 2017). The contingent 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.

On January 11, 2015, Great American Group Energy Equipment, LLC ("GAGEE"), a wholly owned subsidiary of the Company that was formed for the purpose of acquiring oil rigs in 2008, 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 6). Total liabilities include a note payable in the amount of \$6.6 million that is collateralized by the assets of GAGEE. Under Chapter 7 of the Bankruptcy Code the assets of GAGEE will be liquidated and the resulting cash proceeds will be used by the bankruptcy trustee to pay creditors. As a result of the bankruptcy filing on January 11, 2015, the assets and liabilities of GAGEE described above will no longer be consolidated in the Company's consolidated financial statements for periods subsequent to the bankruptcy filing. At the present time, management does not expect the bankruptcy of GAGEE to 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 is expected to be completed in the second quarter of 2015.

In March 2015, in Europe 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 on March 9, 2015. The liquidation sale of inventory is expected to be completed in the second quarter of 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 is expected to be completed 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. ("Payee") in accordance with the subordinated unsecured promissory note (the "RIP Note"). The borrowings are for short-term working capital needs and capital for other retail liquidation engagements. The principal amount of \$4.5 million for the RIP Note accrues interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The Payee is 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 shall the Company be obligated to pay to Payee any portion of the combined amount of interest and the Success Fee which exceeds 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, are due and payable by us on March 9, 2016. The RIP Note is 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 Payee. 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 Payee. In addition, Thomas Kelleher, the President of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of the Payee. 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.

### *Results of Operations*

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

### ***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

**Consolidated Statements of Operations****(Dollars in thousands)**

	Year Ended December 31, 2014		Year Ended December 31, 2013		
	Amount	%	Amount	%	
<b>Revenues:</b>					
Services and fees	\$ 67,257	87.2	% \$ 59,967	78.8	%
Sale of goods	9,859	12.8	% 16,165	21.2	%
Total revenues	77,116	100.0	% 76,132	100.0	%
<b>Operating expenses:</b>					
Direct cost of services	23,466	30.4	% 24,146	31.7	%
Cost of goods sold	14,080	18.3	% 11,506	15.1	%
Selling, general and administrative expenses	44,453	57.6	% 36,382	47.8	%
Restructuring charge	2,548	3.3	% -	0.0	%
Total operating expenses	84,547	109.6	% 72,034	94.6	%
Operating (loss) income	(7,431 )	-9.6	% 4,098	5.4	%
<b>Other income (expense):</b>					
Interest income	12	0.0	% 26	0.0	%
Loss from equity investment in Great American Real Estate, LLC and Shoon Trading Limited	-	0.0	% (177 )	-0.2	%
Gain from bargain purchase	-	0.0	% -	0.0	%
Interest expense	(1,262 )	-1.6	% (2,667 )	-3.5	%
(Loss) income before income taxes	(8,681 )	-11.2	% 1,280	1.7	%
Benefit (provision) for income taxes	2,886	3.6	% (704 )	-0.9	%
Net (loss) income	(5,795 )	-7.6	% 576	0.8	%
Net income (loss) attributable to noncontrolling interests	6	0.0	% (482 )	-0.6	%
Net (loss) income attributable to B. Riley Financial, Inc.	\$ (5,801 )	-7.6	% \$ 1,058	1.4	%

## Revenues

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

	Year Ended December 31, 2014		Year Ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and Fees:						
Auction and Liquidation segment	\$ 17,166	22.3 %	\$ 32,409	42.6 %	\$(15,243)	-47.0%
Valuation and Appraisal segment	30,671	39.8 %	27,558	36.2 %	3,113	11.3 %
Capital Markets segment	19,420	25.2 %	-	n/m	19,420	n/m
Subtotal	67,257	87.2 %	59,967	78.8 %	7,290	12.2 %
Revenues - Sale of goods						
Auction and Liquidation	9,859	12.8 %	9,963	13.1 %	(104 )	-1.0 %
UK Retail Stores	-	n/m	6,202	8.1 %	(6,202 )	n/m
Subtotal	9,859	12.8 %	16,165	21.2 %	(6,306 )	-39.0%
Total revenues	\$ 77,116	100.0 %	\$ 76,132	100.0 %	\$ 984	1.3 %

n/m - Not applicable or not meaningful.

Total revenues increased \$1.0 million to \$77.1 million during the year ended December 31, 2014 from \$76.1 million during the year ended December 31, 2013. The increase in revenues during the year ended December 31, 2014 was primarily due to an increase in revenues from services and fees of \$7.3 million; offset by a decrease in revenues from the sale of goods of \$6.3 million. The increase in revenues from services and fees of \$7.3 million in 2014 was primarily due to an increase in revenues of \$19.4 million from our capital markets segment which includes the operating results of the operations acquired from BRC for the period from June 18, 2014, the date of acquisition, through December 31, 2014 and an increase in revenues of \$3.1 million in our valuation and appraisal segment. These increases were offset by a decrease in revenues from services and fees of \$15.2 million in the auction and liquidation segment. The decrease in revenues from the sale of goods of \$6.3 million in 2014 was comprised of a decrease in revenues of \$0.1 million in the auction and liquidation segment and \$6.2 million in the UK retail stores segment.

Revenues from services and fees in the auction and liquidation segment decreased \$15.2 million, or 47.0%, to \$17.2 million during the year ended December 31, 2014 from \$32.4 million during the year ended December 31, 2013. The

decrease in revenues of \$15.2 million during the year ended December 31, 2014 was primarily due to (a) a decrease in revenues from services and fees from retail liquidation engagements of \$13.7 million, (b) a decrease in revenues of \$1.0 million from services and fees in our wholesale and industrial auction division and (c) a decrease in revenues of \$0.5 million from real estate services and capital advisory services provided by our GA Capital division. The decrease in revenues from services and fees from retail liquidation engagements was primarily due to a decrease in the services and fees of \$5.4 million from our retail liquidation operations in Europe that we restructured in the third quarter of 2014 and the accrual of a loss of \$6.1 million for one retail liquidation engagement where we provided a minimum guarantee of amounts to be realized from the liquidation of inventory. In 2013, revenues from services and fees for retail liquidation engagements included revenues of \$8.1 million for one retail liquidation engagement where we provided a minimum guarantee of amounts to be realized from the liquidation of inventory. The decrease in revenues from services and fees revenue in the wholesale and industrial auction business was primarily due to a decrease in number of engagements during 2014 as compared to the same period in 2013. The decrease in revenues from real estate services in 2014 was primarily due to a decrease in the number and size of real estate consulting engagements during 2014 as compared to the same period in 2013.

Revenues from services and fees in the valuation and appraisal segment increased \$3.1 million, or 11.3%, to \$30.7 million during the year ended December 31, 2014 from \$27.6 million during the year ended December 31, 2013. The increase in revenues was primarily due increases of (a) \$0.8 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$2.4 million for appraisals of machinery and equipment and intellectual property. These increases were offset by a decrease in revenues of \$0.1 million from our appraisal operations in the United Kingdom.

Revenues from services and fees in the capital markets segment were \$19.4 million during the year ended December 31, 2014. These revenues included revenues for the period from June 18, 2014 to December 31, 2014 as a result of our acquisition of BRC. Capital markets segment revenues include revenues from investment banking fees of \$10.3 million, commissions and other income primarily earned from research, sales and trading of \$7.8 million, and trading income of \$1.3 million.



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

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Auction and Liquidation Segment	UK Retail Stores Segment	Total	Auction and Liquidation Segment	UK Retail Stores Segment	Total
Revenues - Sale of Goods	\$ 9,859	\$ -	\$ 9,859	\$ 9,963	\$ 6,202	\$ 16,165
Cost of Goods Sold	14,080	-	14,080	7,940	3,566	11,506
Gross margin	\$ (4,221 )	\$ -	\$ (4,221 )	\$ 2,023	\$ 2,636	\$ 4,659
Gross margin percentage	-42.8 %	n/a	-42.8 %	20.3 %	42.5 %	28.8 %

---

n/a - Not applicable.

Total revenues from the sale of goods decreased by \$6.3 million, or 39.0%, to \$9.9 million during the year ended December 31, 2014 from \$16.2 million during the year ended December 31, 2013. The decrease in revenues from the sales of goods in 2014 was comprised of a \$0.1 million decrease in revenues from the sale of goods in the auction and liquidation segment and \$6.2 million decrease in revenues in the UK retail stores segment. The decrease in revenues from the sale of goods in the auction and liquidation segment was primarily due to a slight decrease in the value of goods sold in 2014 as compared to 2013. The decrease in revenues from the sale of the sale of goods in the UK retail store segment was due to the fact we did not operate in the UK retail store segment in 2014 as discussed above.

Revenues from the sale of goods in our wholesale and industrial auction business decreased \$0.1 million, to \$9.9 million during the year ended December 31, 2014 from \$10.0 million during the year ended December 31, 2013. Gross margin from the sales of goods where we held title in the auction and liquidation segment decreased to (42.8%) during the year ended December 31, 2014 as compared to a gross margin of 20.3% during the year ended December 31, 2013. The gross margin in 2014 was negatively impacted by \$2.9 million of impairment and inventory valuation charges in the fourth quarter of 2014 and \$1.7 million of inventory valuation charges during the third quarter of 2014. The impairment and inventory valuation charges in the fourth quarter of 2014 were comprised of a \$1.2 million impairment charge we incurred as a result of the expiration of the lease finance receivable on December 15, 2014 and an inventory valuation charge of \$2.1 million related to another oil rig and aircraft parts that are included in goods held for sale at December 31, 2014. The \$1.7 million impairment charge in the third quarter of 2014 was incurred to write down the carrying value of certain goods held for sale or auction relating to machinery and equipment that we sold at auction in the third quarter of 2014.

We did not have any revenues or cost of goods sold in the UK retail stores segment during the year ended December 31, 2014 as the operating results of Shoon are not consolidated for any periods after July 31, 2013 and we no longer operate in the UK retail stores segment. Revenues from the operation of ten retail stores and internet operations of Shoon in the United Kingdom for the year ended December 31, 2013 were \$6.2 million and cost of goods sold for such period was \$3.6 million. The gross margin for such sales was 42.5% for the year ended December 31, 2013.

## Operating Expenses

**Direct Costs of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the years ended December 31, 2014 and 2013 are as follows:

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Auction and Liquidation Segment	Valuation and Appraisal Segment	Total	Auction and Liquidation Segment	Valuation and Appraisal Segment	Total
Revenues - Services and fees	\$ 17,166	\$ 30,671		\$ 32,409	\$ 27,558	
Direct cost of services	10,719	12,747	\$ 23,466	11,120	13,026	\$ 24,146
Gross margin on services and fees	\$ 6,447	\$ 17,924		\$ 21,289	\$ 14,532	
Gross margin percentage	37.6 %	58.4 %		65.7 %	52.7 %	

Total direct costs decreased \$0.6 million, to \$23.5 million during the year ended December 31, 2014 from \$24.1 million during the year ended December 31, 2013. Direct costs of services in the auction and liquidation segment decreased \$0.4 million to \$10.7 million during the year ended December 31, 2014 from \$11.1 million during the year ended December 31, 2013. The decrease in expenses was primarily due to a decrease in 2014 in the number of fee and commission type engagements where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2013. Direct costs of services in the valuation and appraisal services segment decreased \$0.3 million, to \$12.7 million during the year ended December 31, 2014 from \$13.0 million during the year ended December 31, 2013. The decrease in direct costs of services in the valuation and appraisal segment was primarily due to a slight decrease in headcount from productivity and efficiencies we gained in 2014.

Gross margin in the auction and liquidation segment for services and fees decreased to 37.6% of revenues during the year ended December 31, 2014, as compared to 65.7% of revenues during the year ended December 31, 2013. The decrease in the gross margin during the year ended December 31, 2014 was primarily due to the accrual of a loss of \$6.1 million for one retail liquidation engagement where we provided a minimum guarantee of amounts to be realized from the liquidation of inventory. Conversely, the gross margin in the auction and liquidation segment in 2013 was favorably impacted by revenues earned from one retail liquidation engagement where we earned revenues of \$8.1 million.

Gross margins in the valuation and appraisal segment increased to 58.4% of revenues during the year ended December 31, 2014 as compared to 52.7% of revenues during the year ended December 31, 2013. The increase in the gross margin is primarily to due to the increased productivity we experienced during the year ended December 31, 2014 from the increase in business and revenues from the appraisals for machinery and equipment as compared to the same period in 2013.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the years ended December 31, 2014 and 2013 were comprised of the following:

#### **Selling, General and Administrative Expenses by Segment**

**(Dollars in thousands)**

	Year Ended December 31, 2014		Year Ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Auction and Liquidation segment	\$ 8,588	19.3 %	\$ 12,065	33.2 %	\$(3,477 )	-28.8 %
Valuation and Appraisal segment	10,872	24.5 %	8,861	24.4 %	2,011	22.7 %
Capital Markets segment	14,378	32.3 %	-	n/a	14,178	n/a

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

UK Retail Stores segment	-	n/a	3,818	10.5	%	(3,818)	-100.0%		
Corporate and Other segment	10,615	23.9	%	11,638	31.9	%	(1,023)	-8.8	%
Total selling, general & administrative expenses	\$ 44,453	100.0	%	\$ 36,382	100.0	%	\$ 7,871	21.6	%

Total selling, general and administrative expenses increased \$8.1 million, or 22.2%, to \$44.5 million during the year ended December 31, 2014 from \$36.4 million for the year ended December 31, 2013. The increase was primarily due to an increase in selling, general and administrative expenses of \$1.9 million in the valuation and appraisal segment and an increase in selling, general and administrative expenses of \$14.3 million in the capital markets segment as a result of the acquisition of BRC on June 18, 2014. These increases were offset by decreases of (a) \$3.5 million in the auction and liquidation segment, (b) \$3.8 million in the UK retail stores segment as a result of no longer operating Shoon and (c) \$1.0 million in corporate and other.

Selling, general and administrative expenses in the auction and liquidation segment decreased \$3.5 million, or 28.8%, to \$8.6 million during the year ended December 31, 2014 from \$12.1 million for the year ended December 31, 2013. The decrease was primarily due to a decrease in payroll and related expenses of \$2.0 million and other operating expenses of \$1.0 million from our retail liquidation and wholesale and industrial operations in the United States and a decrease in expenses of \$0.4 million from our retail liquidation operations in the United Kingdom that we restructured in 2014 as compared to the same period in 2013.

Selling, general and administrative expenses in the valuation and appraisal segment increased \$1.9 million, or 21.2%, to \$10.8 million during year ended December 31, 2014 from \$8.9 million for the year ended December 31, 2013. The increase was primarily due to an increase in administrative functions in the valuation and appraisal segment and an increase in operating expenses in our valuation and appraisal business in Europe prior to the restructuring of such operations described above.

Selling, general and administrative expenses in the capital markets segment were \$14.3 million during the year ended December 31, 2014. These operating expenses include the operating expenses of BRC for the period from June 18, 2014, the date of acquisition, through December 31, 2014. There were no expenses in the prior year comparable period as BRC was acquired on June 18, 2014.

Selling, general and administrative expenses for the UK retail stores segment was \$3.8 million during the year ended December 31, 2013 which related to the operations of Shoon that was deconsolidated for financial reporting purposes in August 2013.

Selling, general and administrative expenses for corporate and other decreased \$1.3 million, or 11.1%, to \$10.3 million during the year ended December 31, 2014 from \$11.6 million for the year ended December 31, 2013. The decrease was primarily due to a decrease in payroll and related expenses of \$1.4 million for contractually required severance costs related to the departure of our former chief financial officer in April 2013 and a decrease of \$1.2 million, 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. These decreases were offset by transaction expenses of \$1.0 million for legal and professional fees related to the acquisition of BRC on June 18, 2014 and an increase in compensation expense of \$0.5 million for the redemption of one of the noncontrolling interests related to our appraisal business.

**Restructuring Charge.** During the year ended December 31, 2014, we incurred a restructuring charge of \$2.5 million. The restructuring charge was primarily for the costs we incurred from a reduction in force from some of our corporate employees and a significant number of our employees in the United Kingdom and the closure of one of our offices in Deerfield, Illinois as discussed above.

**Other Income (Expense).** Other income included interest income of less than \$0.1 million during the year ended December 31, 2014 and 2013. In 2013, other income (expense) also included a loss of \$0.2 million related to our equity investments in Great American Real Estate, LLC and Shoon.

**Interest Expense.** Interest expense was \$1.3 million during the year ended December 31, 2014 as compared to \$2.7 million during the year ended December 31, 2013. The decrease in interest expense during the year ended December 31, 2014 was primarily due to a decrease in interest expense 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 11 to the consolidated financial statements.

**(Loss) Income Before Income Taxes.** Loss before income taxes was \$8.7 million during the year ended December 31, 2014 as compared to income before income taxes of \$1.3 million during the year ended December 31, 2013. The increase in the loss of \$10.0 million during the year ended December 31, 2014 was primarily due to the operating loss generated in the auction and liquidation segment of \$6.4 million and the \$2.5 million restructuring charge we recorded in the third quarter of 2014 discussed above.

**Benefit (Provision) For Income Taxes.** Benefit for income taxes was \$2.9 million during the year ended December 31, 2014 compared to a provision for income taxes of \$0.7 million during the year ended December 31, 2013. The effective income tax rate was a benefit of 33.2% during the year ended December 31, 2014 compared to an effective income tax rate of 55.0% during the year ended December 31, 2013. The benefit for income taxes in 2014 was negatively impacted by non-deductible transactions costs incurred in connection with the acquisition of BRC on June 18, 2014.

**Net Income (Loss) Attributable to Noncontrolling Interests** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC in 2014 that we do not own. In 2013, the net loss attributable to noncontrolling interests represents the proportionate share of net loss generated by Shoon and Great American Global Partners, LLC that we do not own. During the year ended December 31, 2014, net income attributable to noncontrolling interests was \$0.1 million compared to a net loss attributable to noncontrolling interests of \$0.5 million during the year ended December 31, 2013.

**Net Income (Loss) Attributable to the Company.** Net loss attributable to the Company for the year ended December 31, 2014 was \$5.8 million compared to net income of \$1.1 million during the year ended December 31, 2013. The increase in net loss during the year ended December 31, 2014 as compared to the same period in 2013 was primarily due to a decrease in operating income in the auction and liquidation segment as discussed above and the impact of the restructuring charge of \$2.5 million as more fully described above.

*Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***Consolidated Statements of Operations****(Dollars in thousands)**

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$59,967	78.8 %	\$65,624	78.2 %
Sale of goods	16,165	21.2 %	18,312	21.8 %
Total revenues	76,132	100.0%	83,936	100.0%
<b>Operating expenses:</b>				
Direct cost of services	24,146	31.7 %	23,911	28.5 %
Cost of goods sold	11,506	15.1 %	12,750	15.2 %
Selling, general and administrative expenses	36,382	47.8 %	39,834	47.5 %
Total operating expenses	72,034	94.6 %	76,495	91.1 %
Operating income	4,098	5.4 %	7,441	8.9 %
<b>Other income (expense):</b>				
Interest income	26	0.0 %	201	0.2 %
Loss from equity investment in Great American Real Estate, LLC and Shoon Trading Limited	(177 )	-0.2 %	(120 )	-0.1 %
Gain from bargain purchase	-	0.0 %	1,366	1.6 %
Interest expense	(2,667 )	-3.5 %	(2,612 )	-3.1 %
Income before income taxes	1,280	1.7 %	6,276	7.5 %
Provision for income taxes	(704 )	-0.9 %	(1,936 )	-2.3 %
Net income	576	0.8 %	4,340	5.2 %
Net income (loss) attributable to noncontrolling interests	(482 )	-0.6 %	819	1.1 %
Net income attributable to Great American Group, Inc.	\$1,058	1.4 %	\$3,521	4.2 %

**Revenues**

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

	Year Ended December 31,	Year Ended December 31,	Change
--	----------------------------	----------------------------	--------

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

	2013		2012			
	Amount	%	Amount	%	Amount	%
Revenues - Services and Fees:						
Auction and Liquidation segment	\$32,409	42.6 %	\$40,132	47.8 %	\$(7,723)	-19.2 %
Valuation and Appraisal segment	27,558	36.2 %	25,492	30.4 %	2,066	8.1 %
Capital Markets segment	-	n/m	-	n/m	-	n/m
Subtotal	59,967	78.8 %	65,624	78.2 %	(5,657)	-8.6 %
Revenues - Sale of goods						
Auction and Liquidation	9,963	13.1 %	8,106	9.6 %	1,857	22.9 %
UK Retail Stores	6,202	8.1 %	10,206	12.2 %	(4,004)	-39.2 %
Subtotal	16,165	21.2 %	18,312	21.8 %	(2,147)	-11.7 %
Total revenues	\$76,132	100.0 %	\$83,936	100.0 %	\$(7,804)	-9.3 %

---

n/m - Not applicable or not meaningful.

Total revenues decreased \$7.8 million to \$76.1 million during the year ended December 31, 2013 from \$83.9 million during the year ended December 31, 2012. The decrease in revenues was during the year ended December 31, 2013 was primarily due to a decrease in revenues from services and fees of \$5.7 million and a decrease in revenues from the sale of goods of \$2.1 million. The decrease in revenues from services and fees of \$5.7 million in 2013 was primarily due to a decrease in revenues of \$7.7 million in our auction and liquidation segment; offset by an increase in revenues from services and fees of \$2.0 in our valuation and appraisal segment. The decrease in revenues from the sale of goods of \$2.1 million in 2013 was primarily due to a decrease in revenues of \$4.0 million from our UK retail stores segment, which was comprised of the operations of the ten retail stores of Shoon. These decreases were partially offset by an increase in revenues of \$1.9 million in the auction and liquidation segment. The increase in revenues from the sale of goods in the auction and liquidation segment of \$1.9 million in 2013 was primarily related to the revenues from the sale of four oil rigs in the third quarter of 2013.



Revenues from services and fees in the auction and liquidation segment decreased \$7.7 million, or 19.2%, to \$32.4 million during the year ended December 31, 2013 from \$40.1 million during the year ended December 31, 2012. The decrease in revenues of \$7.7 million during the year ended December 31, 2013 was primarily due to a decrease in revenues (a) from lending activities of \$5.0 million, (b) from services and fees of \$3.6 million from real estate consulting services from our GA Keen Realty Advisors division and (c) from services and fees of \$1.7 million in our wholesale and industrial auction division. These decreases were offset by an increase in revenues (a) from services and fees of \$0.7 million from capital advisory services provided by our GA Capital division and (b) from services and fees of \$1.9 million earned on retail liquidation and consulting engagements. The revenues from lending activities during year ended December 31, 2012 included interest income and monitoring fees of \$0.9 million and amortization of discount of \$4.1 million on a loan receivable related to lending activities in the United Kingdom. There were no lending activities in the United Kingdom that generated financing revenues during the year ended December 31, 2013. The decrease in services and fees revenue in the wholesale and industrial auction business was primarily due to a decrease in number of engagements during 2013 as compared to the same period in 2012. The decrease in revenues from our GA Keen Realty Advisors division in 2013 was primarily due to a decrease in the number and size of real estate consulting engagements during 2013 as compared to the same period in 2012. Revenues from services and fees during 2013 for retail liquidation engagements included revenues of \$8.1 million from one retail liquidation engagement where we provided a minimum guarantee of amounts to be realized from the liquidation of inventory. The increase in revenues from our GA Capital division was primarily due to an increase in fees earned on capital advisory engagements in 2013 as compared to the same period in 2012.

Revenues from services and fees in the valuation and appraisal segment increased \$2.1 million, or 8.1%, to \$27.6 million during the year ended December 31, 2013 from \$25.5 million during the year ended December 31, 2012. The increase in revenues was primarily due to an increase in revenues of (a) \$0.2 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors, (b) \$0.9 million for appraisals for machinery and equipment and intellectual property and (c) \$1.0 million as a result of the expansion of the appraisal operations in the United Kingdom.

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

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Auction and Liquidation Segment	UK Retail Stores Segment	Total	Auction and Liquidation Segment	UK Retail Stores Segment	Total
Revenues - Sale of Goods	\$ 9,963	\$ 6,202	\$ 16,165	\$ 8,106	\$ 10,206	\$ 18,312
Cost of Goods Sold	7,940	3,566	11,506	7,275	5,475	12,750
Gross margin	\$ 2,023	\$ 2,636	\$ 4,659	\$ 831	\$ 4,731	\$ 5,562
Gross margin percentage	20.3 %	42.5 %	28.8 %	10.3 %	46.4 %	30.4 %

Total revenues from the sale of goods decreased by \$2.1 million, or 11.7%, to \$16.2 million during the year ended December 31, 2013 from \$18.3 million during the year ended December 31, 2012. The increase in revenues from the sale of goods in the auction and liquidation segment of \$1.9 million in 2013 was primarily related to the revenues from the sale of four oil rigs in the third quarter of 2013. Gross margin from the sales of goods where we held title in the auction and liquidation segment increased to 20.3% in 2013 as compared to a gross margin of 10.3% during the year ended December 31, 2012. The gross margin in 2013 was favorably impacted by the gross margin we earned from the sale of the four oil rigs in 2013 which was higher than the gross margin we earn from the sale of goods that we typically earn from wholesale and industrial auctions.

Total revenues from the sale of goods in our UK retail stores segment decreased \$4.0 million, to \$6.2 million during the year ended December 31, 2013 from \$10.2 million during the year ended December 31, 2012. Revenues and cost of goods sold in the UK retail stores segment are from the operation of ten retail stores and internet operations of Shoon in the United Kingdom. Revenues from the sale of retail goods from the Shoon stores in 2013 included sales for seven months for the period from January 1, 2013 through July 31, 2013. In August 2013, the shareholder agreement of Shoon was amended and restated to eliminate our control rights which resulted in the deconsolidation of Shoon. As such, the operating results of Shoon are not consolidated with the Company's for any periods after July 31, 2013. In 2012, revenues from the sale of retail goods from the Shoon included approximately eight months of sales for the period from May 4, 2012 to December 31, 2012, as a result of our acquisition of Shoon on May 4, 2012. The decrease in revenues from the sale of retail goods is primarily due to fewer operating days of the Shoon stores in 2013 as compared to the prior year. The decrease in revenues in 2013 was also due to an increase in promotions that resulted in a decrease in average selling prices as compared to the prior year. The decrease in average selling prices from the increase in promotions in 2013 resulted in a decrease in the gross margin to 42.5% in 2013, from the 46.4% gross margin during 2012.

## Operating Expenses

**Direct Costs of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the years ended December 31, 2013 and 2012 are as follows:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Auction and Liquidation Segment	Valuation and Appraisal Segment	Total	Auction and Liquidation Segment	Valuation and Appraisal Segment	Total
Revenues - Services and fees	\$ 32,409	\$ 27,558		\$ 40,132	\$ 25,492	
Direct cost of services	11,120	13,026	\$ 24,146	12,327	11,584	\$ 23,911
Gross margin on services and fees	\$ 21,289	\$ 14,532		\$ 27,805	\$ 13,908	
Gross margin percentage	65.7 %	52.7 %		69.3 %	54.6 %	

Total direct costs increased \$0.2 million, to \$24.1 million during the year ended December 31, 2013 from \$23.9 million during the year ended December 31, 2012. Direct costs of services in the auction and liquidation segment decreased \$1.2 million to \$11.1 million during the year ended December 31, 2013 from \$12.3 million during the year ended December 31, 2012. The decrease in expenses was primarily due to a decrease in 2013 in the number of fee and commission type engagements where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2012. Direct costs of services in the valuation and appraisal services segment increased \$1.4 million, or 12.4%, to \$13.0 million during the year ended December 31, 2013 from \$11.6 million during the year ended December 31, 2012. The increase was primarily due to an increase in headcount which resulted in an increase in salaries, wages and benefits in 2013 as compared to the same period in 2012.

Gross margin in the auction and liquidation segment for services and fees decreased to 65.7% of revenues during the year ended December 31, 2013, as compared to 69.3% of revenues during the year ended December 31, 2012. The decrease in the gross margin during the year ended December 31, 2013 was primarily due to an increase in revenues earned from lower-margin cost plus fee based liquidation engagements in 2013 as compared to higher margin liquidation engagements where we provided a minimum recovery value for goods sold at bankruptcy liquidation sales. We typically earn higher margins on these types of engagements where we provide a minimum recovery value for goods sold as compared to fee and commission engagements.

Gross margins in the valuation and appraisal segment decreased to 52.7% of revenues during the year ended December 31, 2013 as compared to 54.6% of revenues during the year ended December 31, 2012. Gross margins in 2013 were unfavorably impacted by an increase in headcount that resulted in an increase in salaries, wages and

benefits in 2013 as compared to the same period in 2012.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the year ended December 31, 2013 and 2012 were comprised of the following:

### Selling, General and Administrative Expenses by Segment

(Dollars in thousands)

	Year Ended December 31, 2013		Year Ended December 31, 2012		Change	
	Amount	%	Amount	%	Amount	%
Auction and Liquidation segment	\$ 12,065	33.2 %	\$ 17,257	43.3 %	\$(5,192)	-30.1 %
Valuation and Appraisal segment	8,861	24.4 %	7,095	17.8 %	1,766	24.9 %
UK Retail Stores segment	3,818	10.5 %	4,480	11.3 %	(662)	-14.8 %
Corporate and Other segment	11,638	31.9 %	11,002	27.6 %	636	5.8 %
Total selling, general & administrative expenses	\$ 36,382	100.0 %	\$ 39,834	100.0 %	\$(3,452)	-8.7 %

Total selling, general and administrative expenses decreased \$3.5 million, or 8.7%, to \$36.3 million during the year ended December 31, 2013 from \$39.8 million for the year ended December 31, 2012. The decrease was primarily due to a decrease in selling, general and administrative expenses of (a) \$5.2 million in the auction and liquidation segment and (b) \$0.7 million in the UK retail stores segment. These decreases were offset by an increase in (a) selling, general and administrative expenses of \$1.8 million in the valuation and appraisal segment and (b) selling, general and administrative expenses of \$0.7 million in corporate and other.

Selling, general and administrative expenses in the auction and liquidation segment decreased \$5.2 million, to \$12.1 million during the year ended December 31, 2013 from \$17.3 million for the year ended December 31, 2012. The \$5.2 million decrease in selling, general and administrative expenses in the auction and liquidation segment was primarily due to a decrease in profit sharing and bonus expense related to our operations in Europe in 2013.

Selling, general and administrative expenses in the valuation and appraisal services segment increased \$1.8 million, or 24.9%, to \$8.9 million during the year ended December 31, 2013 from \$7.1 million for the year ended December 31, 2012. The increase was primarily due to an increase in headcount in administrative functions in the valuation and appraisal segment that resulted in an increase in payroll and related expenses of \$0.4 million and an increase in operating expenses of \$1.3 million from the expansion of our appraisal operations in the United Kingdom. Selling, general and administrative expenses for the UK retail store segment decreased \$0.7 million to \$3.8 million in 2013 from \$4.5 million during the prior year. The decrease in selling general and administrative expenses in the UK retail store segment was primarily due to the inclusion of one fewer month of expenses for the UK retail store segment in the period ended December 31, 2013 versus the period ended December 31, 2012 as a result of the deconsolidation discussed above.

Selling, general and administrative expenses for corporate and other increased \$0.6 million, or 5.8%, to \$11.6 million during the year ended December 31, 2013 from \$11.0 million for the year ended December 31, 2012. The increase was primarily due to an increase in payroll and related expenses related to contractually required severance costs incurred in April 2013 as a result of the departure of our former chief financial officer.

**Other Income (Expense).** Other expense was \$0.2 million during the year ended December 31, 2013 as compared to other income of \$1.4 million during the year ended December 31, 2012. Other expense in 2013 was primarily comprised of \$0.2 million of losses from our equity investments in Shoon and Great American Real Estate, LLC. Other income during the year ended December 31, 2012 was primarily comprised of (a) \$0.2 million of interest income on our note receivable – related party as described in Note 19 to our consolidated financial statements; (b) \$1.4 million of gain from bargain purchase as a result of the Shoon acquisition on May 4, 2012, where the net assets acquired exceeded the consideration paid, offset by \$0.1 million from our loss from our equity investment in Great American Group Real Estate, LLC.

**Interest Expense.** Interest expense was \$2.7 million during the year ended December 31, 2013 as compared to \$2.6 million during the year ended December 31, 2012. Interest expense during the year ended December 31, 2013 was primarily comprised of interest expense on the notes payable to Andrew Gumaer and Harvey Yellen and certain other related parties of \$2.0 million, interest expense and amortization of deferred loan fees on our \$100.0 million asset based credit facility of \$0.2 million, interest expense and fees of \$0.3 million incurred for the asset based credit facility that was used to fund some of our retail liquidation engagements, and interest expense on our accounts receivable revolving line of credit of \$0.1 million. Interest expense during the year ended December 31, 2012 was primarily comprised of interest expense on the notes payable to Mr. Gumaer and Mr. Yellen and certain other related parties of \$2.1 million, amortization of deferred loan fees on our \$100.0 million asset based credit facility of \$0.3 million, and \$0.2 million of interest expense we incurred on our accounts receivable revolving line of credit and

amounts outstanding under of asset based credit facility for letters of credit.

**Income Before Income Taxes.** Income before income taxes was \$1.3 million during year ended December 31, 2013 compared to income before income taxes of \$6.3 million during the year ended December 31, 2012. The decrease in income before income taxes during the year ended December 31, 2013 was primarily due to (a) a \$1.4 million decrease in operating income earned from the operations of Shoon which are included in our UK retail stores segment; (b) a \$1.3 million decrease in operating income earned from the our Valuation and Appraisal segment and our Auction and Liquidation segment; (c) the gain from bargain purchase of \$1.4 million related to the acquisition of Shoon in 2012; (d) a decrease in interest income of \$0.2 million; and (e) an increase in corporate overhead of \$0.6 million that primarily related to contractually required severance costs from the departure of our former chief financial officer in April 2013.

**Provision For Income Taxes.** Provision for income taxes was \$0.7 million during the year ended December 31, 2013 compared to a provision for income taxes of \$1.9 million during the year ended December 31, 2012. The effective income tax rate was 55.0% during the year ended December 31, 2013 compared to an effective income tax rate of 30.8% during the year ended December 31, 2012. The effective income tax rate on our provision for income taxes in 2013 was negatively impacted by the tax differential related to the tax benefit from foreign losses reported in our financial statements during 2013. During 2012, our provision for income taxes was favorably impacted by lower income taxes from our foreign operations which included the operating results from our acquisition of Shoon on May 4, 2012 and the gain on bargain purchase of Shoon.

**Net Income Attributable to Noncontrolling Interests.** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Shoon and Great American Group Global Partners, LLC that we do not wholly-own. During the year ended December 31, 2013, net loss attributable to noncontrolling interests was \$0.5 million compared to net income attributable to noncontrolling interests of \$0.8 million during the year ended December 31, 2012.

**Net Income Attributable to the Company.** Net income attributable to the Company for the year ended December 31, 2013 was \$1.1 million compared to net income of \$3.5 million during the year ended December 31, 2012. The decrease in net income during the year ended December 31, 2013 as compared to the same period in 2012 was primarily due to (a) a \$1.4 million decrease in operating income earned from the operations of Shoon which are included in our UK retail stores segment; (b) the gain from bargain purchase of \$1.4 million related to the acquisition of Shoon in 2012; (c) an increase in corporate overhead of \$0.6 million that primarily related to contractually required severance costs from the departure of our former chief financial officer in April 2013; and (d) the amount reported for the net income (loss) attributable to noncontrolling interests.

### **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 year ended December 31, 2014 we generated a net loss of \$5.8 million and during the years ended December 31, 2013 and 2012 we generated net income of \$1.1 million and \$3.5 million, respectively. 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. We used cash from operations of \$23.0 million and \$2.5 million during the years ended December 31, 2014 and 2013, respectively, and cash provided by operating activities was \$16.2 million during the year ended December 31, 2012.

As of December 31, 2014, we had \$21.6 million of unrestricted cash, \$7.7 million of restricted cash, net investments in securities of \$17.2 million, and \$0.1 million of borrowings outstanding on our revolving credit facility and \$18.5 million of borrowings outstanding under our asset based 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.

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

On October 29, 2014, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about December 9, 2014 to stockholders of records on November 18, 2014. 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 the payment of dividends at any time for any reason it deems relevant. 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.

Our principal sources of liquidity to finance our business is our existing cash on hand, cash flows generated from operating activities, funds available under revolving credit facilities and special purpose financing arrangements.

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net cash provided by (used in):			
Operating activities	\$(23,030)	\$(2,492)	\$16,210
Investing activities	(3,667 )	5,482	(6,764 )
Financing activities	29,469	(3,075)	(5,888 )
Effect of foreign currency on cash	(39 )	231	129
Net (decrease) increase in cash and cash equivalents	\$2,733	\$146	\$3,687



***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

Cash used in operating activities was \$23.0 million for the year ended December 31, 2014 compared to cash used in operating activities of \$2.5 million in the year ended December 31, 2013. Cash used in operating activities in the year ended December 31, 2014 includes our net loss adjusted for noncash items and changes in operating assets and liabilities. The increase in cash used in operating activities in 2014 of \$20.5 million was primarily due (a) a decrease in our net income of \$6.4 million from \$0.6 million during the year ended December 31, 2013 to a net loss of \$5.8 million for the year ended December 31, 2014 and (b) the use of \$16.0 million of cash to purchase marketable securities for our trading portfolio in our capital markets segment; offset by other changes in operating assets, liabilities and non-cash items of \$2.0 million.

Cash used in investing activities was \$3.7 million for the year ended December 31, 2014 compared to cash provided by investing activities of \$5.5 million in 2013. During the year ended December 31, 2014, cash used in investing activities was primarily comprised of (a) a \$7.3 million increase in restricted cash and (b) \$0.3 million of cash used to purchase property and equipment, offset by (i) \$2.7 million of cash acquired from the acquisition of BRC and (ii) \$1.2 million of cash collected from the note receivable – related party. During the year ended December 31, 2013, cash provided by investing activities was primarily comprised of (a) a \$7.6 million decrease in restricted cash and (b) \$0.6 million of cash collected from the note receivable – related party, offset by \$1.2 million of cash used to purchase property and equipment and \$1.6 million from the deconsolidation of Shoon.

Cash provided by financing activities was \$29.5 million during the year ended December 31, 2014 compared to cash used in financing activities of \$3.1 million in the year ended December 31, 2013. During the year ended December 31, 2014, cash provided by financing activities primarily consisted of proceeds of \$51.2 million from the Private Placement, and borrowings of \$12.8 million under our asset based credit facility, offset by cash of (a) \$0.3 million of repayments under our revolving credit facility, (b) \$31.7 million used to repay principal payments on our notes payable to related parties, (c) \$0.5 million to pay dividends on our common stock and (d) \$2.1 million used to repay other notes payable and make distributions to noncontrolling interests. During the year ended December 31, 2013, cash used in financing activities primarily consisted of \$2.8 million for the repayment of borrowings under our notes payable, \$2.0 million of repayments on our accounts receivable revolving line of credit, \$1.7 million of principal payments on the notes payable to related parties, \$1.9 million of distributions to noncontrolling interests, offset by borrowings of \$5.7 million on our asset based credit facility that was utilized to purchase goods held for sale or auction in our wholesale and industrial operations.

***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

Cash used in operating activities was \$2.5 million for the year ended December 31, 2013 compared to cash provided by operating activities of \$16.2 million in 2012. Cash used in operating activities in 2013 includes net income adjusted for noncash items and changes in operating assets and liabilities. The decrease in cash provided by operating activities

in 2013 was primarily due to a decrease in net income during the year ended December 31, 2013 to \$0.6 million from net income of \$4.4 million during the year ended December 31, 2012 and the impact of the sales-type financing we provided on the sale of four oil rigs. Cash provided by operating activities in 2012 was favorably impacted by the increase in cash flows from our lending activities in the United Kingdom related to the cash collections on our loan receivable in the amount of \$8.5 million. There were no similar lending activities during the year ended December 31, 2013.

Cash provided by investing activities was \$5.5 million for the year ended December 31, 2013 compared to cash used in investing activities of \$6.8 million during the year ended December 31, 2012. During the year ended December 31, 2013, cash provided by investing activities was primarily comprised of (a) a \$7.6 million decrease in restricted cash and (b) \$0.6 million of cash collected from the note receivable – related party, offset by \$1.2 million of cash used to purchase property and equipment.

Cash used in financing activities was \$3.1 million for the year ended December 31, 2013 compared to cash used in financing activities of \$5.9 million in 2012. During the year ended December 31, 2013, cash used in financing activities primarily consisted of \$2.8 million for the repayment of borrowings under our notes payable, \$2.0 million of repayments on our accounts receivable revolving line of credit, \$1.7 million of principal payments on the notes payable to related parties, \$1.9 million of distributions to noncontrolling interests, offset by borrowings of \$5.7 million on our asset based credit facility that was utilized to purchase goods held for sale or auction in our wholesale and industrial operations. Cash used in financing activities was \$5.9 million for the year ended December 31, 2012. During the year ended December 31, 2012, cash used in financing activities primarily consisted of \$2.1 million for the repayment of borrowings under our notes payable, \$1.7 million of principal payments on the notes payable to related parties, \$2.5 million of distributions to noncontrolling interests, offset by an increase of \$0.4 million on the accounts receivable revolving line of credit.

### *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 \$100,000 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 December 31, 2014 and December 31, 2013, the outstanding balance under the credit facility for borrowings was \$18.5 and \$5.7 million, respectively. At December 31, 2014, there were letters of credit outstanding for two retail liquidation engagements in the amount of \$8.6 million. At December 31, 2013, there were no letters of credits outstanding under the credit facility.

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. During the year ended December 31, 2013, the lease payments collected from the lease of four oil rigs was used to reduce the outstanding note payable balance by \$2.7 million to \$6.9 million at December 31, 2013. 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 6 to our consolidated financial statements. Total liabilities include the \$6.6 million of notes payable discussed above that is collateralized by the assets of GAGEE. Under Chapter 7 of the Bankruptcy Code the assets of GAGEE will be liquidated and the resulting cash proceeds will be used by the bankruptcy trustee to pay creditors. As a result of the bankruptcy filing on January 11, 2015, the assets and liabilities of GAGEE described above will no longer be consolidated in the Company's consolidated financial statements for periods subsequent to the bankruptcy filing. At the present time, management does not expect the bankruptcy of GAGEE to 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 and \$0.3 million at December 31, 2014 and 2013, respectively.

### ***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 Riley Investment Partners, L.P. ("Payee") in accordance with the subordinated unsecured promissory note (the "RIP Note"). The principal amount of \$4.5 million for the RIP

Note accrues interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings are for short-term working capital needs and capital for other retail liquidation engagements. The Payee is also is 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 shall the Company be obligated to pay to Payee any portion of the combined amount of interest and the Success Fee which exceeds 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, are due and payable by the Company on March 9, 2016. The RIP Note is 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.

Riley Investment Management LLC, a wholly owned subsidiary of the Company, is the general partner of Payee. 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 Payee. In addition, Thomas Kelleher, the President of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of the Payee. 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

On July 8, 2010, the Company loaned \$3.2 million to GARE for the purposes of investing in GAHA Fund II, LLC, a newly formed joint venture which is 50% owned by GARE. GAHA Fund II, LLC is a special purpose entity created to purchase non-performing distressed real estate loans at a discount to par from a financial institution and market the loans and real estate to third parties. The note receivable bears interest at a rate of 15% per annum and all unpaid principal and interest was originally due on July 8, 2011. In July 2011, the maturity date of the loan was extended and the interest rate was reduced to 8% per annum. On December 29, 2011, additional funds in the amount of \$0.6 million were loaned to GARE and the note receivable was amended to increase the outstanding balance to \$3.8 million and extend the maturity date to July 31, 2012. On February 20, 2013, the third amendment to the note receivable extended the maturity date to December 31, 2013. During the year ended December 31, 2012, the Company received principal payments on the note receivable totaling \$3.2 million and recorded impairment charge of \$0.1 million to write down the note receivable to its estimated net realizable value at December 31, 2012. There was no interest income recorded on the note receivable during the year ended December 31, 2013 and interest income was \$0.2 million for the year ended December 31, 2012. The note receivable in the amount of \$0.6 million is included in note-receivable – related party as of December 31, 2012. The note receivable in the amount of \$0.6 million was paid to the Company in August 2013.

Other than with respect to our arrangements with GAHA Fund II, LLC, as further described in Note 17 “Related Party Transactions” to our consolidated financial statements, 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.

## Dividends

On October 29, 2014, our Board of Directors approved a dividend of \$0.03 per share, which was paid on December 9, 2014 to stockholders of record on November 18, 2014. 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 the payment of dividends at any time for any reason it deems relevant. 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.

## Contractual Obligations

The following table sets forth aggregate information about our contractual obligations as of December 31, 2014 and the periods in which payments are due:

(Dollars in thousands)

	Payments due by period				
	Total	Less Than One Year	1-3 Years	4-5 Years	More Than 5 years
	(Dollars in thousands)				
Contractual Obligations					
Revolving credit facility, including interest	\$56	\$ 56	\$ —	\$ —	\$ —
Asset based credit facility, including interest	18,606	18,606	—	—	—
Notes payable, including interest	6,570	6,570	—	—	—
Operating lease obligations	8,241	2,549	3,937	1,755	—
Total	\$33,473	\$ 27,781	\$ 3,937	\$ 1,755	\$ —

We anticipate that cash generated from operations and existing borrowing arrangements under our credit facility to fund costs and expenses incurred in connection with liquidation engagements should be sufficient to meet our cash requirements for at least the next twelve months. However, our future capital requirements will depend on many factors, including the success of our businesses in generating cash from operations, continued compliance with financial covenants contained in our credit facility, the timing of principal payments on our long-term debt and the capital markets in general, among other factors.

## Critical Accounting Policies and Estimates

Our financial statements and the notes thereto contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, management's estimates are adjusted accordingly. Actual results may vary from these estimates and assumptions under different and/or future circumstances. Management considers an accounting estimate to be critical if:



- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods that could have been selected, could have a material impact on results of operations or financial condition.

**Use of Estimates.** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included elsewhere in this Annual Report. Management believes that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our financial statements.

**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 and (ii) revenues from sales and trading activities.

Fees earned from corporate finance and investment banking services are derived from debt, equity and convertible securities offerings in which we 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 includes (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 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.

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 we guarantees a minimum recovery value for goods being sold at auction or liquidation; (iii) revenue from the sale of goods that are purchased by us 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 earned from auction and liquidation services contracts where we guarantees a minimum recovery value for goods being sold at auction or liquidation are recognized based on proceeds received. We record 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, we determine that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, we will accrue a loss on the contract in the period that the loss becomes known.

We also evaluate 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. We have determined that we act as an agent in a substantial majority of our auction and liquidation services contracts and therefore we report 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 we have fulfilled our obligations with respect to the transaction. These revenues are primarily the result of us acquiring title to merchandise with the intent of selling the items at auction or for augmenting liquidation sales.

Revenues from sales-type leases are recorded as an asset at lease inception. The asset is recorded at the aggregate future minimum lease payments, estimated residual value of the leased equipment, and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. During the year ended December 31, 2013, the terms of the lease agreement for four oil rigs that was included in leased equipment at December 31, 2012 was amended to, among other things, eliminate the right of the lessor to return the oil rigs to us. This amendment changed the classification of the lease from an operating lease to a sales-type lease and resulted in the recording of revenues from the sale of the oil during the year ended December 31, 2013.

Revenues from the sale of goods in our UK retail stores segment are recognized as revenue upon the sale of product to retail customers through July 31, 2013. 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. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales.

In the normal course of business, the Company will enter into collaborative arrangements with other merchandise liquidators to collaboratively execute auction and liquidation contracts. The Company's collaborative arrangements specifically include contractual agreements with other liquidation agents in which the Company and such other liquidation agents actively participate in the performance of the liquidation services and are exposed to the risks and rewards of the liquidation engagement. The Company's participation in collaborative arrangements including its rights and obligations under each collaborative arrangement can vary. Revenues from collaborative arrangements are recorded net based on the proceeds received from the liquidation engagement. Amounts paid to participants in the collaborative arrangements are reported separately as direct costs of revenues. Revenue from collaborative arrangements in which the Company is not the majority participant is recorded net based on the Company's share of proceeds received.

***Allowance for Doubtful Accounts.*** We maintain an allowance for doubtful accounts for estimated losses inherent in our 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, the amount of receivables in dispute, 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 bad debt expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

***Inventory.*** Merchandise inventories are stated at the lower of average cost or market. The Company identifies potentially excess and slow-moving inventories and shrinkage by evaluating turn rates, inventory levels, historical results of inventory counts and other factors at its retail and warehouse locations.

We have evaluated the current level of inventories considering historical sales, shrinkage and other factors and, based on this evaluation, we record adjustments to cost of goods sold to reflect inventories at net realizable value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual results if future economic conditions, customer demand or competition differ from expectations.

***Goods Held for Sale or Auction.*** Goods held for sale or auction are stated at the lower of cost or market, determined by the specific-identification method. We write down slow-moving and obsolete goods held for sale or auction based on assessments of market conditions, demand for the goods to be sold at auction, comparable industry sales of similar types of goods, and in part on information obtained from appraisal reports prepared by outside specialists. If these factors were to become less favorable than those projected, additional write-downs of goods held for sale or auction could be required.

***Goodwill and Other Intangible Assets.*** We account for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill includes (i) the excess of the purchase price over the fair value of net assets acquired in a business combination described in Note 3 and 6 and (ii) an increase for the subsequent acquisition of noncontrolling interests during the year ended December 31, 2007 (also see Note 6). The Codification requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates two reporting units, which are the same as its reporting segments described in Note 19. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect

the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If we perform the detailed qualitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (step 2) to measure such impairment. In 2014, we elected to proceed to the quantitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test. Based on our quantitative assessments, we concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2014.

**Fair Value Measurements.** On January 1, 2009, the Company adopted the new accounting guidance and all other guidance related to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

We record securities owned, securities sold not yet purchased, and mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value with fair value determined in accordance with the Codification. Our mandatorily redeemable noncontrolling interests are measured at fair value on a recurring basis and 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. Our 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.

We determined the fair value of mandatorily redeemable noncontrolling interests described above based on the issuance of similar interest for cash, references to industry comparables, and relied, in part, on information obtained from appraisal reports prepared by outside specialists.

The carrying amounts reported in the 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), long-term debt and capital lease obligations 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. The adoption of the new accounting guidance on fair value did not have a material impact on our consolidated financial statements.

**Share-Based Compensation.** The Company's share based payment awards principally consist of grants of restricted stock and restricted stock units. Share based payment awards also include grants of membership interests in the Company's majority owned subsidiaries. The grants of membership interests consist of percentage interests in the Company's majority owned subsidiaries as determined at the date of grant. In accordance with the accounting guidance share based payment awards are classified as either equity or a liability. For equity-classified awards, the Company measures compensation cost for the grant of membership interests at fair value on the date of grant and recognizes compensation expense in the consolidated statement of operations over the requisite service or performance period the award is expected to vest. The fair value of the liability-classified award will be subsequently remeasured at each

reporting date through the settlement date. Change in fair value during the requisite service period will be recognized as compensation cost over that period.

**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 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, the eligible carryforward period, and other circumstances. 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.

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 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 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.

*New Accounting Standards*

In May 2014, the Financial Accounting Standards Board issued an accounting standards update amending revenue recognition requirements for multiple deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The update is effective for annual reporting periods after December 15, 2016 and for interim reporting periods within that reporting period. Early adoption is not permitted. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.



**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item 8 is submitted as a separate section on page F-1 of this Annual Report on Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

54

## **Item 9A. CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

We maintain a system of disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that is designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures. Based upon the foregoing evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2014 our disclosure controls and procedures were effective at the reasonable assurance level.

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.

### *Changes in Our Controls*

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### *Report of Management on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the

participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

**Item 9B. OTHER INFORMATION**

None.

## **PART III**

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2014.

### **Item 11. EXECUTIVE COMPENSATION**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2014.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2014.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2014.

### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2014.



## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

*Financial Statements.* The Company's Consolidated Financial Statements as of December 31, 2014 and 2013 and for each of the three years in the year ended December 31, 2014 and the notes thereto, together with the report of the independent auditors on those Consolidated Financial Statements are hereby filed as part of this report, beginning on page F-1.

*2. Financial Statement Schedules.*

Financial Statement Schedules other than those listed above have been omitted because they are either not applicable or the information is otherwise included in the consolidated financial statements or the notes thereto.

(b) Exhibits and Index to Exhibits, below.

#### Exhibit Index

Exhibit No.	Description
2.1(1)+	Acquisition Agreement, dated May 19, 2014, by and among the registrant, Darwin Merger Sub I, Inc., B. Riley Capital Markets, LLC, B. Riley and Co. Inc., B. Riley & Co. Holding, LLC, Riley Investment Management LLC, and Bryant Riley
3.1(2)	Certificate of Incorporation, dated as of May 7, 2009
3.2(3)	Certificate of Amendment of the Certificate of Incorporation, dated as of May 30, 2014
3.3(3)	Certificate of Amendment of the Certificate of Incorporation, dated as of October 7, 2014
3.4(3)	Certificate of Ownership and Merger, dated as of November 4, 2014
3.5(3)	Amended and Restated Bylaws, dated as of November 6, 2014
4.1*	Form of common stock certificate

- 10.1(4) Security Agreement, dated as of October 21, 2008, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association (Successor to Wells Fargo Retail Finance, LLC)
- 10.2(5) Escrow Agreement, dated as of July 31, 2009, by and among Alternative Asset Management Acquisition Corp., the registrant, Andrew Gumaer, as the Member Representative, and Continental Stock Transfer & Trust Company
- 10.3(5)# Form of Director and Officer Indemnification Agreement
- 10.4(5)# Employment Agreement, dated July 31, 2009, by and between the registrant and Scott Carpenter
- 10.5(6)# B. Riley Financial, Inc. Amended and Restated 2009 Stock Incentive Plan
- 10.6(7) Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit), dated as of May 17, 2011, by and between BFI Business Finance and Great American Group Advisory & Valuation Services, LLC
- 10.7(8) Second Amended and Restated Credit Agreement, dated as of July 15, 2013, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association
- 10.8(8) Third Amended and Restated Guaranty, dated as of July 15, 2013, by and between the registrant and Great American Group, LLC, in favor of Wells Fargo Bank, National Association

- 10.9(9) Uncommitted Liquidation Finance Agreement, dated as of March 19, 2014, by and among GA Asset Advisors Limited, each special purpose vehicle affiliated to GA Asset Advisors Limited which accedes to such agreement, and Burdale Financial Limited
- 10.10(9) Master Guarantee and Indemnity, dated as of March 19, 2014, by and among GA Asset Advisors Limited, the registrant, Great American Group, LLC, Great American Group WF, LLC, Burdale Financial Limited and Wells Fargo Bank, National Association
- 10.11(1) Securities Purchase Agreement, dated May 19, 2014, by and among the registrant and each purchaser identified on Annex A thereto
- 10.12(1) Form of Registration Rights Agreement
- 10.13(1) Letter Agreement, dated May 19, 2014, by and between the registrant and Andrew Gumaer
- 10.14(1) Letter Agreement, dated May 19, 2014, by and between the registrant and Harvey Yellen
- 10.15(1)# Employment Agreement, dated May 19, 2014, by and between the registrant and Bryant Riley
- 10.16(1)# Amended and Restated Employment Agreement, dated May 19, 2014, by and between the registrant and Andrew Gumaer
- 10.17(1)# Amended and Restated Employment Agreement, dated May 19, 2014, by and between the registrant and Harvey Yellen
- 10.18(10) Escrow Agreement, dated June 18, 2014, by and among the registrant, Bryant Riley and Continental Stock Transfer & Trust Company, Inc.
- 21\* Subsidiary List
- 23.1\* Consent of Marcum LLP
- 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 of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. 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



Edgar Filing: B. Riley Financial, Inc. - Form 10-K

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\*Filed herewith.

<sup>+</sup>Schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby agrees to furnish a copy of any omitted schedules to the Securities and Exchange Commission upon request.

#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 May 19, 2014.
- (2) Incorporated by reference to the registrant's Registration Statement on Form S-4 (File No. 333-159644) declared effective by the Commission on July 17, 2009.
- (3) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2014.
- (4) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 31, 2009.
- (5) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 9, 2009.
- (6) Incorporated by reference to the registrant's Registration Statement on Form S-8 (File No. 333-202876) filed with the SEC on March 19, 2015.
- (7) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on May 26, 2011.
- (8) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 19, 2013.
- (9) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on March 25, 2014.
- (10) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on June 18, 2014.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 2015 /s/ PHILLIP J. AHN  
 (Phillip J. Ahn, Chief Operating Officer and Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

Signature	Title	Date
/s/ BRYANT R. RILEY (Bryant R. Riley)	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 30, 2015
/s/ PHILLIP J. AHN (Phillip J. Ahn)	Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)	March 30, 2015
/s/ HOWARD E. WEITZMAN (Howard E. Weitzman)	Chief Accounting Officer (Principal Accounting Officer)	March 30, 2015
/s/ ANDREW GUMAER (Andrew Gumaer)	Director	March 30, 2015
/s/ MATTHEW J. HART (Matthew J. Hart)	Director	March 30, 2015
/s/ HUGH G. HILTON (Hugh G. Hilton)	Director	March 30, 2015
/s/ RICHARD L. TODARO (Richard L. Todaro)	Director	March 30, 2015

**B. RILEY FINANCIAL, INC.**

**(F/K/A GREAT AMERICAN GROUP, INC. )**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-5
<u>Consolidated Statements of Equity (Deficit)</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

**Report of Independent Registered Public Accounting Firm**

To the Audit Committee of the  
Board of Directors and Shareholders of  
B. Riley Financial, Inc.

We have audited the accompanying consolidated balance sheets of B. Riley Financial, Inc. (f/k/a Great American Group, Inc.) and Subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity (deficit) and cash flows for each of the years in the three year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of B. Riley Financial, Inc. (f/k/a Great American Group, Inc.) and Subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

Marcum LLP

Melville, New York  
March 30, 2015



**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except par value)**

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,600	\$ 18,867
Restricted cash	7,657	325
Securities owned, at fair value	17,955	—
Accounts receivable, net	10,098	8,858
Lease finance receivable	—	8,099
Advances against customer contracts	16,303	1,058
Goods held for sale or auction	4,117	13,964
Note receivable related party - current portion	—	703
Deferred income taxes	6,420	3,870
Prepaid expenses and other current assets	3,795	948
Total current assets	87,945	56,692
Note receivable related party - net of current portion	—	497
Property and equipment, net	776	1,090
Goodwill	27,557	5,688
Other intangible assets, net	2,799	140
Deferred income taxes	19,181	8,739
Other assets	732	831
Total assets	\$ 138,990	\$ 73,677
Liabilities and Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,233	\$ 11,578
Due to related parties	213	45
Auction and liquidation proceeds payable	665	—
Securities sold not yet purchased	746	—
Mandatorily redeemable noncontrolling interests	2,922	2,823
Asset based credit facility	18,506	5,710
Revolving credit facility	56	333
Current portion of long-term debt	—	1,724
Notes payable	6,570	6,856
Total current liabilities	41,911	29,069
Long-term debt, net of current portion	—	48,759
Total liabilities	41,911	77,828

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

Commitments and contingencies

B. Riley Financial, Inc. stockholders' equity (deficit):

Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 135,000,000 shares authorized; 15,968,607 and 1,500,107 issued and outstanding as of December 31, 2014 and 2013, respectively	2	—
Additional paid-in capital	110,598	3,086
Retained earnings (deficit)	(12,891 )	(6,611 )
Accumulated other comprehensive income (loss)	(648 )	(638 )
Total B. Riley Financial, Inc. stockholders' equity (deficit)	97,061	(4,163 )
Noncontrolling interests	18	12
Total equity (deficit)	97,079	(4,151 )
Total liabilities and equity (deficit)	\$ 138,990	\$ 73,677

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



**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Dollars in thousands, except share and per share data)**

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Services and fees	\$67,257	\$59,967	\$65,624
Sale of goods	9,859	16,165	18,312
Total revenues	77,116	76,132	83,936
Operating expenses:			
Direct cost of services	23,466	24,146	23,911
Cost of goods sold	14,080	11,506	12,750
Selling, general and administrative	44,453	36,382	39,834
Restructuring charge	2,548	—	—
Total operating expenses	84,547	72,034	76,495
Operating (loss) income	(7,431 )	4,098	7,441
Other income (expense):			
Interest income	12	26	201
Loss from equity investment in Great American Real Estate, LLC	—	(21 )	(120 )
Loss from equity investment in Shoon Trading Limited	—	(156 )	—
Gain from bargain purchase	—	—	1,366
Interest expense	(1,262 )	(2,667 )	(2,612 )
(Loss) income before income taxes	(8,681 )	1,280	6,276
Benefit (provision) for income taxes	2,886	(704 )	(1,936 )
Net (loss) income	(5,795 )	576	4,340
Net income (loss) attributable to noncontrolling interests	6	(482 )	819
Net (loss) income attributable to B. Riley Financial, Inc.	\$(5,801 )	\$1,058	\$3,521
Basic (loss) earnings per share	\$(0.60 )	\$0.74	\$2.46
Diluted (loss) earnings per share	\$(0.60 )	\$0.71	\$2.38
Weighted average basic shares outstanding	9,612,154	1,434,107	1,434,107
Weighted average diluted shares outstanding	9,612,154	1,494,328	1,480,671

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

**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPHREHENSIVE INCOME (LOSS)****(Dollars in thousands)**

	Year Ended December		
	31,		
	2014	2013	2012
Net (loss) income	\$(5,795)	\$576	\$4,340
Other comprehensive loss:			
Change in cumulative translation adjustment	(10 )	(118)	(273 )
Other comprehensive loss, net of tax	(10 )	(118)	(273 )
Total comprehensive (loss) income	(5,805)	458	4,067
Comprehensive income (loss) attributable to noncontrolling interests	6	(482)	819
Comprehensive (loss) income attributable to B. Riley Financial, Inc.	\$(5,811)	\$940	\$3,248

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

**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)****(Dollars in thousands)**

	Preferred Stock Shares	Common Stock Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
Balance, December 31, 2011	—	1,550,039	\$ 3,181	\$(11,190)	\$ (247 )	\$ —	\$(8,256 )
Net income	—	—	—	3,521	—	819	4,340
Foreign currency translation adjustment	—	—	—	—	(273 )	—	(273 )
Formation of noncontrolling interests	—	—	—	—	—	78	78
Cancellation of founders contingent shares held in escrow	—	(50,000 )	—	—	—	—	—
Purchase of noncontrolling interest in subsidiary	—	—	(95 )	—	—	—	(95 )
Changes in noncontrolling interests	—	—	—	—	—	31	31
Adjustments for restricted stock awards	—	68	—	—	—	—	—
Balance, December 31, 2012	—	1,500,107	3,086	(7,669 )	(520 )	928	(4,175 )
Net income	—	—	—	1,058	—	—	1,058
Change in noncontrolling interest from deconsolidation of Shoon Trading Limited	—	—	—	—	—	(434 )	(434 )
Foreign currency translation adjustment	—	—	—	—	(118 )	—	(118 )
Changes in noncontrolling interests	—	—	—	—	—	(482 )	(482 )
Balance, December 31, 2013	—	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

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

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.	—	—	4,182,637	1	26,350	—	—	26,351						
B. Riley Financial, Inc. common stock owned by B. Riley & Co., Inc. - cancelled upon acquisition	—	—	(3,437 )	—	(29 )	—	—	(29 )						
Dividends paid	—	—	—	—	—	(479 )	—	(479 )						
Deferred tax asset from principal payment on debt to the former Great American Group Members	—	—	—	11,200	—	—	—	11,200						
Foreign currency translation adjustment	—	—	—	—	—	—	(10 )	(10 )						
Net loss	—	—	—	—	—	(5,801 )	—	6						
Balance, December 31, 2014	—	\$	15,968,607	\$	2	\$	110,598	\$(12,891)	\$	(648 )	\$	18	\$	97,079

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

**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)**

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net (loss) income	\$(5,795 )	\$576	\$4,340
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	646	1,863	835
Provision for doubtful accounts	532	(12 )	108
Impairment of goods held for sale or auction	4,675	428	194
Effect of foreign currency on operations	137	226	(98 )
Loss from equity investment in Great American Real Estate, LLC and Shoon Trading Limited	—	177	120
Gain from bargain purchase	—	—	(1,366 )
Loss on disposal of assets	91	—	3
Deferred income taxes	(2,984 )	989	1,366
Income allocated to mandatorily redeemable noncontrolling interests	1,892	1,897	1,928
Change in operating assets and liabilities:			
Accounts receivable and advances against customer contracts	(15,195)	5,145	(6,172 )
Lease finance receivable	107	(8,099 )	—
Securities owned	(16,006)	—	—
Inventory	—	455	1,618
Goods held for sale or auction	9,414	(1,625 )	2,361
Loan receivable	—	156	8,519
Prepaid expenses and other assets	(59 )	167	(33 )
Accounts payable and accrued expenses	(1,142 )	(3,971 )	1,641
Amounts due to related parties	168	—	—
Securities sold not yet purchased	(176 )	—	—
Auction and liquidation proceeds payable	665	(864 )	846
Net cash (used in) provided by operating activities	(23,030)	(2,492 )	16,210
Cash flows from investing activities:			
Acquisition of business	—	—	(1,246 )
Cash acquired from acquisition of B. Riley & Co., Inc.	2,667	—	—
Deconsolidation of Shoon Trading Limited	—	(1,564 )	—
Purchase of noncontrolling interest in subsidiary	—	—	(95 )
Purchases of property and equipment	(252 )	(1,142 )	(634 )
Proceeds from sale of property and equipment	—	—	21
Collection of receivable - related party	1,200	611	3,233
Equity investment in Great American Real Estate, LLC	—	(21 )	(120 )

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

Decrease (increase) in restricted cash	(7,282 )	7,598	(7,923 )
Net cash (used in) provided by investing activities	(3,667 )	5,482	(6,764 )
Cash flows from financing activities:			
(Repayments of) proceeds from revolving line of credit	(277 )	(1,971 )	362
Proceeds from asset based credit facility	12,796	5,710	—
Payment of financing costs	—	(375 )	—
Repayment of notes payable and capital lease obligations	(286 )	(2,785 )	(2,138 )
Repayments of long-term debt	(31,724)	(1,724 )	(1,724 )
Proceeds from issuance of common stock	51,233	—	—
Proceeds from formation of noncontrolling interests	—	—	78
Dividends paid	(479 )	—	—
Distributions to noncontrolling interests	(1,794 )	(1,930 )	(2,466 )
Net cash provided by (used in) financing activities	29,469	(3,075 )	(5,888 )
Effect of foreign currency on cash	(39 )	231	129
Net increase in cash and cash equivalents	2,733	146	3,687
Cash and cash equivalents, beginning of year	18,867	18,721	15,034
Cash and cash equivalents, end of year	\$21,600	\$18,867	\$18,721

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

**B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued**

**(Dollars in thousands)**

	Year Ended December		
	31,		
	2014	2013	2012
Supplemental disclosures:			
Interest paid	\$1,501	\$2,680	\$2,616
Income taxes paid	44	175	278

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

F-8

## **B. RILEY FINANCIAL, INC. (f/k/a GREAT AMERICAN GROUP, INC.) AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except share and per 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, as more fully described below, corporate finance, research, sales and trading services to corporate, institutional and high net worth clients.

In 2014, with the acquisition of BRC, the Company 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 corporate finance, research, sales and trading services to corporate, institutional and high net worth clients. 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’s business in 2013 had an operating segment relating to the operation of UK retail stores (“UK Retail Stores”). The UK Retail Stores segment included the operation of ten retail shoe stores in the United Kingdom as a result of the acquisition of Shoon Trading Limited (“Shoon”) on May 4, 2012. In August 2013, the Shoon shareholder agreement was also amended and restated to eliminate the Company’s super majority voting rights which enabled the Company to control the board of directors of Shoon. As a result of this amendment, the Company no longer controlled the board of directors of Shoon, no longer operated in the UK Retail Stores segment, and Shoon’s operating results are not consolidated for any periods after July 31, 2013. In January 2014, Shoon was sold to a third party, and the Company no longer has a financial interest in the operations of Shoon.

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 11). 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, 2012.

### *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 11), 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 shareholders 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.

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

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

The consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly owned and majority-owned subsidiaries. The consolidated financial statements also include the accounts of Great American Global Partners, LLC which is controlled by the Company as a result of its ownership of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations. All intercompany accounts and transactions have been eliminated upon consolidation.

The accounting guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a VIE; to add an additional reconsideration event for determining whether an entity is a VIE when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the

activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a VIE. As more fully described in Note 19, the Company determined that its' equity investment and subordinated financing arrangements with Great American Real Estate, LLC ("GARE"), a joint venture 50% owned by the Company and Kelly Capital, LLC, changes the status of GARE to a VIE that does not require consolidation in the Company's consolidated financial statements.

***(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; and (ii) revenues from sales and trading activities.

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 includes (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 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 \$3,013, \$2,811 and \$2,704 for the years ended December 31, 2014, 2013 and 2012, 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 \$6,950, \$5,620 and \$5,295 for the years ended December 31, 2014, 2013, and 2012, 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. Revenues in the Auction and Liquidation segment include a loss accrual of \$6,100 for one retail liquidation engagement where the Company guaranteed a minimum recovery value to be realized for the liquidation of inventory.

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.

Revenues from sales-type leases are recorded as an asset at lease inception. The asset is recorded at the aggregate future minimum lease payments, estimated residual value of the leased equipment, and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. During the year ended December 31, 2013, the terms of the lease agreement for four oil rigs that was included in leased equipment at December 31, 2012 was amended to, among other things, eliminate the right of the lessor to return the oil rigs to the Company. This amendment changed the classification of the lease from an operating lease to a sales-type lease and resulted in the Company recording revenues from the sale of the oil rigs of \$9,280 and cost of goods sold of \$7,447 during the year ended December 31, 2013.

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.

Revenues from the sale of goods in our UK retail stores segment were recognized as revenue upon the sale of product to retail customers through July 31, 2013. 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. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales.

In the normal course of business, the Company will enter into collaborative arrangements with other merchandise liquidators to collaboratively execute auction and liquidation contracts. The Company's collaborative arrangements specifically include contractual agreements with other liquidation agents in which the Company and such other liquidation agents actively participate in the performance of the liquidation services and are exposed to the risks and rewards of the liquidation engagement. The Company's participation in collaborative arrangements including its rights and obligations under each collaborative arrangement can vary. Revenues from collaborative arrangements are recorded net based on the proceeds received from the liquidation engagement. Amounts paid to participants in the collaborative arrangements are reported separately as direct costs of revenues. Revenue from collaborative arrangements in which the Company is not the majority participant is recorded net based on the Company's share of proceeds received. There were no revenues and direct cost of services subject to collaborative arrangements during the year ended December 31, 2014. There were revenues of \$8,094 and \$4,238 and direct cost of services of \$1,073 and \$3,331 subject to collaborative arrangements during the years ended December 31, 2013 and 2012, respectively.

***(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***

Revenues from one liquidation service contract to a retailer and the sale of four oil rigs to one customer represented 10.7% and 12.2% of total revenues during the year ended December 31, 2013. Revenues from one liquidation service contract to a retailer represented 14.4% of total revenues during the year ended December 31, 2012. Revenues in the Valuation and Appraisal segment and the Auction and Liquidation segment are primarily generated in the United States and Europe.

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) Advertising Expense***

The Company expenses advertising costs, which consist primarily of costs for printed materials, as incurred. Advertising costs totaled \$262, \$446 and \$698 for the years ended December 31, 2014, 2013, and 2012, respectively. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

***(g) Share-Based Compensation***

The Company's share based payment awards principally consist of grants of restricted stock and restricted stock units. Share based payment awards also includes grants of membership interests in the Company's majority owned subsidiaries. The grants of membership interests consist of percentage interests in the Company's majority owned subsidiaries as determined at the date of grant. In accordance with the applicable accounting guidance, share based payment awards are classified as either equity or liabilities. For equity-classified awards, the Company measures compensation cost for the grant of membership interests at fair value on the date of grant and recognizes compensation expense in the consolidated statement of operations over the requisite service or performance period the award is expected to vest. The fair value of the liability-classified award will be subsequently remeasured at each reporting date through the settlement date. Change in fair value during the requisite service period will be recognized as compensation cost over that period.

***(h) Income Taxes***

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated 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.

***(i) 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.

***(j) Restricted Cash***

The Company maintains deposits in accounts under the control of a financial institution as collateral for letters of credit relating to liquidation engagements in connection with the \$100,000 credit facility described in Note 10 (a) and the \$6,856 note payable described in Note 12. As of December 31, 2014, restricted cash included \$7,532 of cash collateral for the letters of credit and the outstanding loan balance under of asset based credit facility, \$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. As of December 31, 2013, restricted cash included \$165 of cash collateral for electronic payment processing in Europe and \$160 of cash collected from the leasing transactions related to four oil rigs that collateralize the related note payable, which had an outstanding principal amount of \$6,570 as of December 31, 2014.

***(k) Accounts Receivable***

Accounts receivable represents amounts due from the Company's auction and liquidation and valuation and appraisal 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. The Company's bad debt expense totaled \$532, \$18 and \$108 for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts are included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

***(l) 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.

***(m) 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.

***(n) Lease Finance Receivable***

Lease finance receivables consisted of the Company's net investment in sales-type leases for four oil rigs as of December 31, 2013. The gross lease payments included a bargain purchase option in the amount of \$4,242 that was payable upon the maturity of the lease on December 15, 2014. The lessee did not exercise its right to purchase the four oil rigs in accordance with the bargain purchase option. Upon the expiration of the lease on December 15, 2014, the Company recorded an impairment charge in the amount of \$1,142 in cost of goods sold to write-down the four oil rigs to their estimated fair value of \$3,100 which is included in goods held for sale at December 31, 2014. In addition, the lessee was in default and arrears on certain lease payments in the amount of \$2,363 that are included in prepaid expenses and other current assets at December 31, 2014. The lease payments are guaranteed by the parent company of the lessee and the lessee was notified by the Company that it is in default under the lease and demanded payment. In response to this, on June 16, 2014, the lessee has demanded binding arbitration. Management believes that such arbitration will result in the lessee being required to fulfill its obligation under the lease contract and the amounts due from the lessee are collectible. On January 11, 2015, the Company's wholly-owned subsidiary which was a party to the lease agreement filed for voluntary bankruptcy protection as more fully discussed in Note 12. The lease finance receivable at December 31, 2013 is comprised of the following:

	December 31, 2013
Minimum lease payment receivable	\$ 4,367
Lease purchase option	4,242
Unearned income	(510 )
Total lease finance receivable	\$ 8,099

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

Securities owned consists 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 December 31, 2014, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following securities:

December 31,  
2014

Securities owned	
Common stocks	\$ 16,667
Corporate bonds	1,188
Partnership interests	100
	\$ 17,955

**Securities sold not yet purchased**

Corporate bonds	\$ 746
-----------------	--------

***(p) 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 were stated at the present value of minimum lease payments.

***(q) Goodwill and Other Intangible Assets***

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill includes (i) the excess of the purchase price over the fair value of net assets acquired in a business combinations and (ii) an increase for the subsequent acquisition of noncontrolling interests during the year ended December 31, 2007 (also see Note 8). The Accounting Standards Codification (“Codification”) requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates two reporting units, which are the same as its reporting segments described in Note 20. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In 2014, the Company first performed a qualitative assessment to identify and evaluate events and circumstances to conclude whether it is more likely than not that the fair value of the Company’s reporting units are less than its carrying amounts. Based on the Company’s qualitative assessments, the Company concluded that a positive assertion can be made from the qualitative assessment that it is more likely than not that the fair value of the reporting units exceeded their carrying values and no impairments were identified.

The Company reviews the carrying value of its amortizable intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2014.

***(r) 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 following 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 December 31, 2014 and December 31, 2013 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 liabilities measured and recorded at fair value on a recurring basis as of December 31, 2014 and 2013.

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2014, Using			
	Fair Value at December 31, 2014	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	\$ 16,667	\$ 16,348	\$ -	\$ 319
Corporate bonds	1,188	-	1,188	-
Partnership interests	100	-	100	-
Total assets measured at fair value	\$ 17,955	\$ 16,348	\$ 1,288	\$ 319
<b>Liabilities:</b>				
Securities sold not yet purchased Corporate bonds	\$ 746	\$ -	\$ 746	\$ -
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,285	\$ -	\$ -	\$ 2,285
Total liabilities measured at fair value	\$ 3,031	\$ -	\$ 746	\$ 2,285

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2013, Using			
	Fair Value at December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,273	\$ -	\$ -	\$ 2,273
Total liabilities measured at fair value	\$ 2,273	\$ -	\$ -	\$ 2,273

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 year ended December 31, 2013 and 2014 is as follows:

	Level 3 Balance at Beginning of Period	Level 3 Changes During the Year Fair Value Relating to Undistributed Earnings Adjustments	Purchases, Sales and Settlements	Transfer in and/or out of Level 3	Level 3 Balance at End of Period
Year Ended December 31, 2013					
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,246	\$ - \$ 27	\$ -	\$ -	\$ 2,273
Year Ended December 31, 2014					
Common stocks	\$ -	\$ - \$ -	\$ 319	\$ -	\$ 319
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,273	\$ - \$ 103	\$ (91 )	\$ -	\$ 2,285

The amount reported in the table above for the years ended December 31, 2013 and December 31, 2014 includes the amount of undistributed earnings attributable to the mandatorily redeemable noncontrolling interests that is distributed on a quarterly basis. The amounts reported in the table above for the year ended December 31, 2014 includes settlements of \$91 related to the repurchase of mandatorily redeemable noncontrolling interests from one of our majority owned limited liability company majority owned subsidiaries and \$316 of common stock purchased by BRC which is included in securities owned at December 31, 2014.

The carrying amounts reported in the 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.

***(s) 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 year-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 consolidated balance sheets. Transaction losses were \$137 during the year ended December 31, 2014 and transaction gains were \$257 and \$892 during the years ended December 31, 2013 and 2012, respectively. These amounts are included in selling, general and administrative expenses in our consolidated statements of operations.

***(t) Supplemental Cash Flows Disclosure***

During the year ended December 31, 2014, supplemental non-cash activity included a decrease in long term debt of \$18,759 related to the discount on the retirement of the long term debt payable to Andrew Gumaer and Harvey Yellen, the two former Great American Members (as more fully described in Notes 1 and 11), both of whom were executive officers and directors of the Company at the time of such retirement. The \$48,759 principal amount of long-term debt was repaid in full with a cash payment of \$30,000 on June 5, 2014. The discount of \$18,759 has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements.

***(u) Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board issued an accounting standards update amending revenue recognition requirements for multiple deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract;



(iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The update is effective for annual reporting periods after December 15, 2016 and for interim reporting periods within that reporting period. Early adoption is not permitted. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

### **NOTE 3— ACQUISITIONS**

#### *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
Total	\$26,351

The amount of revenue and earnings attributable to BRC in the Company's consolidated statement of operations during the year ended December 31, 2014 were as follows:

	Period from June 18, 2014 through December 31, 2014
Revenues	\$ 19,420
Income before income taxes	5,124

### ***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, 2013. 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 .

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

	Pro Forma Unaudited	
	Year Ended	Year Ended
	December	December 31, 2013
	31, 2014	
Revenues	\$91,656	\$ 102,965
Net (loss) income attributable to B. Riley Financial, Inc.	\$(3,938	) \$ 4,594
Basic (loss) income per share	\$(0.34	) \$ 0.82
Diluted (loss) income per share	\$(0.34	) \$ 0.81
Weighted average basic shares outstanding	11,533,178	5,613,307
Weighted average diluted shares outstanding	11,533,178	5,674,528

F-18

***2012 Acquisition of Shoon Trading Limited***

On May 4, 2012, the Company invested \$65 for a 44.4% interest in the common stock of Shoon. Shoon purchased the rights to operate the former Shoon internet business and retail stores that were in administration in the United Kingdom. As part of the investment, the Company also loaned Shoon approximately \$1,300 that is collateralized by retail inventory. The loan bore interest at an annual rate of LIBOR plus 6.0% payable monthly and had a maturity date of May 3, 2014. In accordance with the Shoon shareholder agreement, the Company had the right to appoint a Chairman of Shoon. Together with the Company's 44.4% investment in the common stock of Shoon and control of the majority of the board of directors, the Company had a controlling interest in Shoon. On August 2, 2013, an additional loan in the amount of \$847 (net of \$40 discount) was extended to Shoon with a maturity date of August 3, 2015. This increased the outstanding principal from both loans to \$1,371. Interest on the new loan was payable monthly at 6.5%. Both of the loans are collateralized by the inventory of Shoon. The remaining balance of the loans receivable at December 31, 2013 is included in the Company's consolidated balance sheet in note receivable related party – current portion in the amount of \$703 and in note receivable related party - net of current portion in the amount of \$497. In connection with the new loan in August 2013, the Shoon shareholder agreement was amended and restated to eliminate the Company's super majority voting rights which enable the Company to control the board of directors of Shoon. As a result of this amendment, the Company no longer controls Shoon and the operating results of Shoon are not consolidated for any periods after July 31, 2013. As such, the Company has consolidated the operations of Shoon and included the results of operations of Shoon from May 4, 2012, the date of investment, through July 31, 2013 in the Company's consolidated statements of operations. In January 2014, Shoon was sold to a third party and the two loans in the amount of \$1,200 outstanding at December 31, 2013 were repaid to the Company. As a result of the sale of Shoon, the Company recorded an impairment charge as of December 31, 2013 of \$111 to write-down the investment in Shoon to its estimated net realizable value.

In accordance with the accounting guidance for consolidation of variable interest entities, the Company has determined that the additional financing arrangement in the form of the new note receivable with Shoon and the elimination of the Company's super majority voting rights in August 2013, as discussed above, changes the status of Shoon to a VIE. The Company, in determining whether or not it is the primary beneficiary of Shoon, considered the voting interests of the shareholders of Shoon and the shareholders ability to direct the activities of Shoon. The Company determined it is not the primary beneficiary of the VIE since the Company does not have the ability to exercise any rights or powers to direct the activities of Shoon that most significantly impact Shoon's economic performance. Accordingly, Shoon's operating results are not consolidated for any periods after July 31, 2013. As of December 31, 2013, the carrying amount and maximum exposure to loss due to the Company's involvement with Shoon is the combined balance of both loans in the amount of \$1,200 and \$22 equity investment in Shoon. The Company's loss under the equity method of accounting for Shoon was \$156 for the five months ended December 31, 2013.

The summarized financial information below includes amounts related to Shoon, the Company's less-than-majority-owned subsidiary, for periods after July 31, 2013.



	Five Months Ended December 31, 2013	
Total revenues	\$	6,294
Cost of goods sold		3,375
Loss before income taxes		(160 )
Income tax benefit		58
Net loss	\$	(102 )
GAG, Inc equity share of net loss	\$	(45 )

	As of December 31, 2013	
Current assets	\$	3,865
Non-current asstes		397
Total assets		4,262
Current liabilities		3,338
Non-current liabilities		497
Net assets	\$	427

The Company determined the fair value of assets acquired exceeded consideration paid by approximately \$1,366 which was recorded as a bargain purchase gain during the three months ended June 30, 2012. The gain on bargain purchase is included as a separate component of other income (expense) in the Company's consolidated statements of operations.

The following details the estimated fair value of the net assets acquired and the excess of such net assets over the purchase price upon acquisition:

Fixed assets	\$78
Retail inventory	3,752
Accounts payable and accrued liabilities	(810 )
Deferred tax liability	(408 )
Fair value of net assets acquired	2,612
Total cash consideration	(1,246)
Gain on bargain purchase	\$1,366

The following financial statement amounts of Shoon were included in the accompanying consolidated financial statements in the UK retail stores segment for the period from May 4, 2012, the date of investment, through December 31, 2012 and for the period from January 1, 2013 through July 31, 2013:

	Period From January 1, 2013 to July 31, 2013	Period From May 4, 2012 to December 31, 2012
Revenues:		
Revenues - Sale of goods	\$ 6,202	\$ 10,206
Cost of goods sold	(3,566)	(5,475)
Selling, general and administrative expenses	(3,818)	(4,480)
Operating (loss) income	(1,182)	251
Other expenses	(94)	(251)
Gain on bargain purchase	-	1,366
(Loss) income before income taxes	(1,276)	1,366
Benefit (provision) for income taxes	319	(1)
Net (loss) income	(957)	1,365
Net (loss) income attributable to noncontrolling interest	(532)	819
Net (loss) income attributable to B. Riley Financial, Inc.	\$ (425)	) \$ 546

The disclosure of pro forma financial information for the year ended December 31, 2012 has not been provided given the impracticality of obtaining the information since the former owners of Shoon were operating in administration in the United Kingdom.

#### NOTE 4— RESTRUCTURING CHARGE

During the second quarter of 2014, the Company initiated a strategic review of our operations taking into account the planned synergies as a result of the acquisition of BRC. On August 13, 2014, as a result of the strategic review, our Board of Directors ratified and approved the Company's implementation of cost savings measures that resulted in a reduction in corporate overhead and the restructuring of our operations in Europe. The Company 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 offices in Deerfield, Illinois and London, England. These initiatives resulted in a restructuring charge of \$2,548 in the third quarter of 2014. The restructuring charge consists of payroll and severance costs of \$1,595, office closure costs of \$686 and other expenses of \$267. As a result of such reductions in force and restructuring, which the Company completed in the third quarter of 2014, the Company anticipates a shift in its strategic focus from Europe which may result in a reduction in revenues from our European operations. The related accruals are included in accounts payable and accrued expenses in the consolidated balance sheet. The following table summarizes the restructuring charge during 2014:

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

	Auction and Liquidation Segment	Valuation and Appraisal Segment	Corporate and Other Expenses	Total
Expensed during 2014:				
Payroll and severance costs	\$ 951	\$ 131	\$ 513	\$1,595
Office closure	295	8	383	686
Other charges	93	64	110	267
Total expensed during the 2014	1,339	203	1,006	2,548
Paid during 2014	1,208	203	647	2,058
Accrued balance at December 31, 2014	\$ 131	\$ -	\$ 359	\$490

F-21



**NOTE 5— ACCOUNTS RECEIVABLE**

The components of accounts receivable net include the following:

	December 31, 2014	December 31, 2013
Accounts receivable	\$ 7,797	\$ 8,402
Investment banking fees, commissions and other receivables	1,608	-
Unbilled receivables	1,421	731
Total accounts receivable	10,826	9,133
Allowance for doubtful accounts	(728 )	(275 )
Accounts receivable, net	\$ 10,098	\$ 8,858

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

	Year Ended December 31,		
	2014	2013	2012
Balance, beginning of year	\$ 275	\$ 371	\$ 424
Add: Additions to reserve	532	18	108
Less: Write-offs	(79 )	(84 )	(12 )
Less: Recoveries	-	(30 )	(149 )
Balance, end of year	\$ 728	\$ 275	\$ 371

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.

At December 31, 2014 and 2013, accounts receivable in the amount of \$2,385 and \$1,284, respectively, were collateralized by the new accounts receivable revolving line of credit more fully described in Note 10.

**NOTE 6— GOODS HELD FOR SALE OR AUCTION**

Goods held for sale or auction consists of the following:

December 31,  
2014 2013

Machinery and equipment	\$4,026	\$13,464
Aircraft parts and other	91	500
Total	\$4,117	\$13,964

Goods held for sale or auction includes machinery and equipment, leased equipment and aircraft parts and other. At December 31, 2014, machinery and equipment of \$4,026 consisted of five oil rigs. At December 31, 2013, machinery and equipment consisted of \$10,756 of machinery and equipment and one oil rig with a carrying value of \$2,708. During the year ended December 31, 2014, a lower-of-cost or market adjustment of \$1,782 was recorded for the one oil rig. On December 15, 2014, goods held for sale increased by \$3,100 representing the fair value of the four oil rigs that were subject to the lease finance agreement as previously discussed in Note 2(n). Aircraft parts and other is primarily comprised of aircraft parts with a carrying value of \$91 and \$500 which includes a lower of cost or market adjustment of \$1,297 and \$897 as of December 31, 2014 and 2013, respectively. The total amount recorded by the Company for a lower-of-cost or market adjustment for goods held for sale or auction was \$4,673, \$405 and \$194 during the years ended December 31, 2014, 2013 and 2012, respectively. In 2012, goods held for sale included oil rigs that were depreciated over a period of 15 years which approximated their useful life. Depreciation expense on the leased equipment was \$1,252 during the year ended December 31, 2013.

The leased equipment with a carrying value of \$4,026 as of December 31, 2014 serves as collateral for the related note payable, which had an outstanding principal amount of \$6,570 as of December 31, 2014, as more fully described in Note 12.

**NOTE 7— PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	Estimated Useful Lives	December 31,	
		2014	2013
Leasehold improvements	Shorter of lease or estimated useful life	\$244	\$296
Machinery, equipment and computer software	3 years	2,280	2,179
Furniture and fixtures	5 years	1,151	1,176
Capital lease equipment	3 to 5 years	388	388
Total		4,063	4,039
Less: Accumulated depreciation and amortization		(3,287)	(2,949)
		\$776	\$1,090

Depreciation and amortization expense was \$646, \$611 and \$626 during the years ended December 31, 2014, 2013, and 2012, respectively.

**NOTE 8— GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill of \$5,688 at December 31, 2013 is comprised of \$1,975 in the Auction and Liquidation segment and \$3,713 in the Valuation and Appraisal segment. On June 18, 2014, goodwill increased by \$21,869 from the Company's acquisition of BRC. 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 purchase price allocation as more fully described in Note 3. The transaction with BRC is expected to result in synergies and allow the Company and BRC to leverage the contacts and relationships in each of the businesses.

Other intangible assets increased from \$140 at December 31, 2013 to \$2,799 at December 31, 2014 from the acquisition of BRC on June 18, 2014. In connection with the acquisition of BRC, other intangible assets acquired included \$1,200 for customer relationships and \$1,600 for the tradename of B. Riley. The customer relationships are being amortized over their estimated useful lives of 4 to 8 years and amortization expense for the year ended December 31, 2014 was \$141. Other intangible assets of \$1,740 for trademarks and the tradename of B. Riley have been identified as an indefinite lived intangible asset that are not being amortized.

**NOTE 9— LEASING ARRANGEMENTS**

At December 31, 2014 and 2013, the Company had machinery and equipment under capital leases with a gross carrying amount of \$388 and accumulated amortization of \$388 included in property and equipment. Amortization expense for the assets under capital leases was \$10 and \$23 for the years ended December 31, 2013, and 2012, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

F-23

The Company has several noncancellable operating leases that expire at various dates through 2019. Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2014 are:

	Operating Leases
Year Ending December 31:	
2015	\$ 2,549
2016	2,294
2017	1,643
2018	1,316
2019	439
Total minimum lease payments	\$ 8,241

Rent expense under all operating leases was \$2,107, \$1,717 and \$1,641 for the years ended December 31, 2014, 2013, and 2012, respectively. Rent expense is included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

#### **NOTE 10— 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% (3.165% at December 31, 2013) 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 11, and the acquisition of BRC. Interest expense totaled \$400 (including success fees of \$162), \$532 (including success fees of \$292) and \$357 for the years ended December 31, 2014, 2013 and 2012, respectively. The outstanding balance under this credit facility was \$18,506 and \$5,710 at December 31, 2014 and 2013, respectively.

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 December 31, 2014), 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 December 31, 2014, there was \$2,385 of accounts receivable as collateral for the Line of Credit and the total borrowings outstanding was \$56 and \$1,971 was available and unused. Interest expense totaled \$46, \$90 and \$112 for the years ended December 31, 2014, 2013 and 2012, respectively.

**NOTE 11— LONG-TERM DEBT**

Long-term debt consists of the following arrangements:

	December 31, 2014	2013
\$60,000 notes payable to each of the Great American Members and the Phantom Equityholders of GAG, LLC issued in connection with the Acquisition dated July 31, 2009	\$ -	\$ 50,483
Total long-term debt	-	50,483
Less: Current portion of long-term debt	-	1,724
Long-term debt, net of current portion	\$ -	\$ 48,759

**(a) \$60,000 Notes 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 \$812, \$2,014 and \$2,132 for the years ended December 31, 2014, 2013 and 2012, respectively. Accrued interest payable was \$325 on the notes payable as of December 31, 2013.

#### **NOTE 12— NOTES PAYABLE**

On May 29, 2008, GAGEE entered into a credit agreement with Garrison Special Opportunities Fund LP, 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. 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 (“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 until November 17, 2009, unless a forbearance default occurs, as specified in the Forbearance Agreement. Also, pursuant to the terms of the Forbearance Agreement, GAGEE agreed to hold an auction of the assets collateralizing GAGEE obligations under the credit agreement on or before November 3, 2009 and to use the sale proceeds to repay its obligations under the credit agreement. In connection with the execution of the Forbearance Agreement, GAG, LLC made a payment of \$1,200 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. Pursuant to the Forbearance Agreement, the Company held an auction of the assets collateralizing GAGEE’s obligation on November 3, 2009. The sale of the assets at auction was subject to meeting the reserve prices and approval by the Lenders, and the auction did not result in the sale of any of the assets.

On December 31, 2009, GAGEE entered into an amendment to credit agreement (the “First Amendment To Credit Agreement”) dated as of December 18, 2009 with Garrison Special Opportunities Fund LP and the Administrative Agent, whereby the Lender agreed to forebear from exercising any of the remedies available to them under the Forbearance Agreement and the related Security Agreement and to extend the maturity date of the Forbearance Agreement until November 18, 2010, unless a forbearance default occurs, as specified in the Credit Agreement. Pursuant to the terms of the First Amendment To Credit Agreement and Second Amendment To Credit Agreement, the interest rate was reduced from 20% to 0% and the Lender agreed to reimburse GAGEE for certain expenses from proceeds of the sale assets that collateralize the Credit Agreement. The Forbearance Agreement expired on November 18, 2010. GAGEE entered into a second amendment to the credit agreement on May 9, 2011, which extended the maturity date of the note payable to November 19, 2011 with an interest rate of 0% through maturity (the “Second Amendment to the Credit Agreement”). The Second Amendment 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. As a result of the delay in entering into the Second Amendment to the Credit Agreement, interest in the amount of \$309 was accrued from the date of the expiration of the First Amendment to the Credit Agreement on November 18, 2010 to December 31, 2010 at an interest rate of 22% (the default rate). This accrued interest of \$309 was reversed in the first quarter of 2011, as the Second Amendment to the Credit Agreement provides for 0% interest for that period, and reflected in the consolidated statement of operations as a reduction of interest expense. GAGEE entered into a third amendment to the Credit Agreement on March 19, 2012, which extended the maturity date of the note payable 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 provide for the lender to reimburse GAGEE for certain expenses from proceeds of the sale or lease of the assets that collateralize the note payable. 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 and 2013, the note payable balance was \$6,570 and \$6,856, respectively. 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 (as amended, the "Bankruptcy 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 6). Total liabilities include the \$6,570 of notes payable discussed above that is collateralized by the assets of GAGEE. Under Chapter 7 of the Bankruptcy Code the assets of GAGEE will be liquidated and the resulting cash proceeds will be used by the bankruptcy trustee to pay creditors. As a result of the bankruptcy filing on January 11, 2015, the assets and liabilities of GAGEE described above will no longer be consolidated in the Company's consolidated financial statements for periods subsequent to the bankruptcy filing. At the present time, management does not expect the bankruptcy of GAGEE to have a material impact on the consolidated financial position of the Company.

On July 31, 2012, the Company borrowed \$227 from a finance company to finance insurance premiums. Interest on the loan was 6.6% and the loan required monthly installments of \$23 until maturity on May 30, 2013. Interest expense totaled \$6 and \$5 for the year ended December 31, 2013 and 2012, respectively. The outstanding balance on the note payable of \$115 at December 31, 2012 was repaid in June 2013.

**NOTE 13— COMMITMENTS AND CONTINGENCIES***(a) Letters of Credit*

There were letters of credit outstanding in the amount of \$8,553 related to two retail liquidation engagements at December 31, 2014 and there were no letters of credit outstanding at December 31, 2013.

*(b) Legal Matters*

In 2015, the Company was served with a lawsuit that seeks to assert claims of breach of contract and other matters with damages in an amount up to \$10,000. 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.

**NOTE 14— INCOME TAXES**

The Company's provision (benefit) for income taxes consists of the following for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$-	\$-	\$204
State	98	2	24
Foreign	-	(287)	342
Total current provision	98	(285)	570
Deferred:			
Federal	(2,503)	791	1,419
State	(481)	198	289

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

Foreign	-	-	(342 )
Total deferred	(2,984 )	989	1,366
Total provision for income taxes	\$(2,886 )	\$704	\$1,936

A reconciliation of the federal statutory rate of 34% to the effective tax rate for income (loss) from continuing operations before income taxes is as follows for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
Provision for income taxes at federal statutory rate	(34.0 )%	34.0 %	34.0 %
State income taxes, net of federal benefit	(3.7 )	8.7	3.3
Foreign tax on gain on bargain purchase	-	-	(7.4 )
Foreign tax differential	-	9.0	-
Other	4.5	3.3	0.9
Effective income tax rate	(33.2 )%	55.0 %	30.8 %

F-27

Deferred income tax assets (liabilities) consisted of the following as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Deferred tax assets:		
Allowance for doubtful accounts	\$282	\$128
Goods held for sale or auction	2,819	530
Deductible goodwill and other intangibles	9,988	520
Accrued liabilities and other	3,210	1,128
Mandatorily redeemable noncontrolling interests	740	671
Note payable to Phantom Equityholders	-	376
Foreign tax and other tax credit carryforwards	342	591
Net operating loss carryforward	8,220	8,665
Total gross deferred tax assets	\$25,601	\$12,609

The Company's loss before income taxes of \$8,681 for the year ended December 31, 2014 includes a United States component of a loss before income taxes of \$5,812 and a foreign component comprised of a loss before income taxes of \$2,869. As of December 31, 2014, the Company had federal net operating loss carryforwards of \$19,464, state net operating loss carryforwards of \$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. During the year ended December 31, 2014, deferred income taxes increased by \$11,200 for tax deductible goodwill as a result of the principal payment on debt to the Great American members.

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 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.

On January 1, 2009, the Company adopted the accounting guidance for accounting for uncertainty in income taxes. This accounting guidance addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the accounting guidance, 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, 2011 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.

F-28

**NOTE 15— EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income 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 and 50,000 common shares issued to the AAMAC founders that were forfeited during 2012 as a result of the failure to achieve certain performance targets specified in the Acquisition Agreement. The 66,000 common shares issued to the former Great American members are subject to forfeiture upon the final settlement of claims for goods held for sale in connection with the Acquisition. Dilutive common shares outstanding includes 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 was satisfied at the end of the respective periods. Weighted average diluted shares outstanding during the year ended December 31, 2014 exclude 44,883 shares from the computation of net loss per diluted share because the impact would have been anti-dilutive.

Basic and diluted earnings from continuing operations calculated as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2014	2013	2012
Net (loss) income attributable to B. Riley Financial, Inc.	\$(5,801	) \$1,058	\$3,521
Weighted average shares outstanding:			
Basic	9,612,154	1,434,107	1,434,107
Effect of dilutive potential common shares:			
Contingently issuable shares	-	61,221	46,564
Diluted	9,612,154	1,495,328	1,480,671
Basic earnings per share	\$(0.60	) \$0.74	\$2.46
Diluted earnings per share	\$(0.60	) \$0.71	\$2.38

**NOTE 16— LIMITED LIABILITY COMPANY SUBSIDIARIES*****(a) Operating Agreements of Limited Liability Company Subsidiaries***

The Company has subsidiaries that are organized as limited liability companies, each of which has its own separate operating agreement. Generally, each of these subsidiaries is managed by an individual manager who is a member or

employee of the subsidiary, although the manager may not take certain actions unless the majority member of the subsidiary consents to the action. These actions include, among others, the dissolution of the subsidiary, the disposition of all or a substantial part of the subsidiary's assets not in the ordinary course of business, filing for bankruptcy, and the purchase by the subsidiary of one of the members' ownership interest upon the occurrence of certain events. Certain of the members with a minority ownership interest in the subsidiaries are entitled to receive guaranteed payments in the form of compensation or draws, in addition to distributions of available cash from time to time. Distributions of available cash are generally made to each of the members in accordance with their respective ownership interests in the subsidiary after repayment of any loans made by any members to such subsidiary, and allocations of profits and losses of the subsidiary are generally made to members in accordance with their respective ownership interests in the subsidiary. The operating agreements also generally place restrictions on the transfer of the members' ownership interests in the subsidiaries and provide the Company or the other members with certain rights of first refusal and drag along and tag along rights in the event of any proposed sales of the members' ownership interests.

Generally, a member of the subsidiary who materially breaches the operating agreement of the subsidiary, which breach has a direct, substantial and adverse effect on the subsidiary and the other members, or who is convicted of a felony (or a lesser crime of moral turpitude) involving his management of or involvement in the affairs of the subsidiary, or a material act of dishonesty of the member involving his management of or involvement in the affairs of the subsidiary, shall forfeit his entire ownership interest in the subsidiary.



***(b) Repurchase Obligations of Membership Interests of Limited Liability Company Subsidiaries***

The operating agreements of the Company's limited liability company subsidiaries require the Company to repurchase the entire ownership interest of each the members upon the death of a member, disability of a member as defined in the operating agreement, or upon declaration by a court of law that a member is mentally unsound or incompetent. Upon the occurrence of one of these events, the Company is required to repurchase the member's ownership interest in an amount equal to the fair market value of the member's noncontrolling interest in the subsidiary.

The Company evaluated the classification of all of its limited liability company members' ownership interests in accordance with the accounting guidance for financial instruments with characteristics of liabilities and equity. This guidance generally provides for the classification of members' ownership interests that are subject to mandatory redemption obligations to be classified outside of equity. In accordance with this guidance, all members with a minority ownership interest in these subsidiaries are classified as liabilities and included in mandatorily redeemable noncontrolling interests in the accompanying consolidated balance sheet. Members of these subsidiaries with a minority ownership interest issued before November 5, 2003 are stated on a historical cost basis and members of the Company's subsidiaries with a minority ownership interests issued on or after November 5, 2003 are stated at fair value at each balance sheet date. The Company deems such repurchase obligations, which are payable to members who are also employees of these subsidiaries, to be a compensatory benefit. Accordingly, the changes in the historical cost basis and the changes in the fair value of the respective members' ownership interests (noncontrolling interests) are recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. The noncontrolling interests share of net income was \$1,921, \$1,897 and \$1,928 for the years ended December 31, 2014, 2013 and 2012, respectively. There was no change in the fair value of the mandatorily redeemable noncontrolling interests during the years ended December 31, 2014, 2013 and 2012.

**NOTE 17— BENEFIT PLANS AND DIVIDENDS**

***(a) Amended and Restated 2009 Stock Incentive Plan***

The Company assumed the AAMAC 2009 Stock Incentive Plan which was approved by the AAMAC stockholders on July 31, 2009 (as assumed, the "Incentive Plan"). In accordance with Section 13(a) of the Incentive Plan, in connection with the Company's assumption of the Incentive Plan, the Company's board of directors adjusted the maximum number of shares that may be delivered under the Incentive Plan to 782,200 to account for the two-for-one exchange ratio of Company common stock for AAMAC common stock in the Acquisition. On August 19, 2009, the Company's board of directors approved an amendment and restatement of the Incentive Plan which adjusted the number of shares of stock the Company reserved for issuance thereunder to 391,100. Effective as of October 7, 2014, the Company's board of directors approved an amendment and restatement of the Incentive Plan which, among other things, increased the number of shares of stock the Company reserved for issuance thereunder to 3,210,133 shares. As of December 31, 2014, the Company has 3,194,141 shares of common stock available for future grants.

***(b)Employee Benefit Plan***

The Company maintains a qualified defined contribution 401(k) plan, which covers substantially all of its U.S. employees. Under the plan, participants are entitled to make pre-tax contributions up to the annual maximums established by the Internal Revenue Service. The plan document permits annual discretionary contributions from the Company. No employer contributions were made in any of the periods presented.

***(c)Dividends***

On October 29, 2014, the Board of Directors of the Company approved a dividend of \$0.03 per share, which was paid on December 9, 2014 to stockholders of record on November 18, 2014. The Company's Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of the Company's common stock will be made at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by the Board of Directors.

**NOTE 18— NET CAPITAL REQUIREMENTS**

B. Riley & Co., LLC, a subsidiary of the Company, is a registered broker-dealer and, accordingly, is subject to the 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 December 31, 2014, B. Riley & Co., LLC had net capital of \$12,430 (an excess of \$12,028). B. Riley & Co., LLC's net capital ratio for December 31, 2014 was 0.49 to 1.

**NOTE 19— RELATED PARTY TRANSACTIONS**

On July 8, 2010, the Company loaned \$3,224 to GARE for the purposes of investing in GAHA Fund II, LLC, a newly formed joint venture which is 50% owned by GARE. GAHA Fund II, LLC is a special purpose entity created to purchase non-performing distressed real estate loans at a discount to par from a financial institution and market the loans and real estate to third parties. The note receivable bears interest at a rate of 15% per annum and all unpaid principal and interest was originally due on July 8, 2011. In July 2011, the first amendment to the note receivable extended the maturity date of the loan and the interest rate was reduced to 8% per annum. On December 29, 2011, the second amendment to the note receivable increased the outstanding balance by \$620 to \$3,844 as additional funds were loaned to GARE and the maturity date of the note receivable was extended to July 31, 2012. On February 20, 2013, the third amendment to the note receivable extended the maturity date to December 31, 2013. The note receivable in the amount of \$611 was included in note-receivable – related party as of December 31, 2012. The Company received principal payments of \$3,164 from GARE during the year ended December 31, 2012 and recorded an impairment charge of \$69 to write down the note receivable at December 31, 2012. The operations of GARE ceased upon the repayment of the note receivable in August 2013. There was no interest income earned on the note receivable during the year ended December 31, 2013. Interest income was \$196 for the year ended December 31, 2012 and is included in interest income in the accompanying consolidated statements of operations.

In accordance with the accounting guidance for consolidation of variable interest entities, the Company has determined that the subordinated financing arrangements in the form of notes receivable described above with GARE changes the status of each of the entities to VIE. The Company, in determining whether or not it is the primary beneficiary of GARE, considered the disproportionate capital contributions that were made by the Company, the voting interests of the members of GARE and each member's ability to direct the activities of GARE. The Company determined it is not the primary beneficiary of the VIE since decisions to direct the operations of GARE are done jointly by the members of GARE and the Company does not have a disproportionate voting interest which allows it to exercise any rights or powers that would enable the Company to direct the activities of GARE that most significantly impact GARE's economic performance. The accompanying consolidated financial statements do not consolidate GARE. The loss from GARE is accounted for under the equity method of accounting and is included in other income (loss) in the amount of \$21 and \$120 in the consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2014 and 2013, amounts due to related party of \$213 and \$45, respectively, represents amounts due to CA Global Partners, LLC ("CA Global"). CA Global is one of the members of Great American Global Partners, LLC ("GA Global Ptrs") which started operations in the first quarter of 2013. The amount payable at December 31, 2014 and 2013 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.

At December 31, 2013, note receivable – related party is comprised of two loans to Shoon with an aggregate outstanding receivable balance of \$1,200. The Company owned 44.4% of the common stock of Shoon. The original loan in the amount of \$1,300 was made to Shoon on May 4, 2012 and had a remaining principal balance of \$353 at

December 31, 2013. The loan had a maturity date of May 3, 2014 with interest payable monthly at LIBOR plus 6.0%. On August 2, 2013, an additional loan in the amount of \$847 (net of \$40 discount) was extended to Shoon with a maturity date of August 3, 2015. Interest is payable monthly at 6.5%. Both of the loans were collateralized by the inventory of Shoon. The loan receivables at December 31, 2013 is included in the Company's consolidated balance sheet in note receivable related party – current portion in the amount of \$703 and in note receivable related party - net of current portion in the amount of \$497. In January 2014, Shoon was sold to a third party and the two loans in the amount of \$1,200 outstanding at December 31, 2013 were repaid to the Company as more fully described in Note 3.

## **NOTE 20— 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 corporate finance, research, sales and trading services to corporate, institutional and high net worth clients. In addition, as a result of the acquisition of Shoon on May 4, 2012, the Company operated ten retail stores in the United Kingdom for the period from May 4, 2012, the date of investment, through July 31, 2013 and Shoon's results were reported in the UK Retail Stores segment. In August 2013, the Shoon shareholder agreement was amended and restated to eliminate the Company's super majority voting rights which enabled the Company to control the board of directors of Shoon. As a result of this amendment, the Company no longer controls Shoon and the operating results of Shoon are not consolidated for any periods after July 31, 2013. As such, the Company no longer operates in the UK Retail Stores segment. In January 2014, Shoon was sold to a third party, and the Company no longer has a financial interest in the operations of Shoon.

The Company's business in 2013 was previously classified by management into the Auction and Liquidation segment, Valuation and Appraisal segment, and UK Retail Stores segment. In 2014, with the acquisition of BRC, 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:

	Year Ended December 31,		
	2014	2013	2012
Auction and Liquidation reportable segment:			
Revenues - Services and fees	\$17,166	\$32,409	\$40,132
Revenues - Sale of goods	9,859	9,963	8,106
Total revenues	27,025	42,372	48,238
Direct cost of services	(10,719)	(11,120)	(12,327)
Cost of goods sold	(14,080)	(7,940 )	(7,275 )
Selling, general, and administrative expenses	(8,481 )	(11,889)	(17,064)
Restructuring charge	(1,339 )	-	-
Depreciation and amortization	(107 )	(176 )	(193 )
Segment income	(7,701 )	11,247	11,379
Valuation and Appraisal reportable segment:			
Revenues - Services and fees	30,671	27,558	25,492
Direct cost of services	(12,747)	(13,026)	(11,584)
Selling, general, and administrative expenses	(10,721)	(8,718 )	(6,974 )
Restructuring charge	(203 )	-	-
Depreciation and amortization	(151 )	(143 )	(121 )
Segment income	6,849	5,671	6,813
Capital markets reportable segment:			
Revenues - Services and fees	19,420	-	-
Selling, general, and administrative expenses	(14,185)	-	-
Depreciation and amortization	(193 )	-	-
Segment income	5,042	-	-
UK Retail Stores reportable segment:			
Revenues - Sale of goods	-	6,202	10,206
Cost of goods sold	-	(3,566 )	(5,475 )
Selling, general, and administrative expenses	-	(3,773 )	(4,462 )
Depreciation and amortization	-	(45 )	(18 )
Segment income	-	(1,182 )	251
Consolidated operating income from reportable segments	4,190	15,736	18,443
Corporate and other expenses (includes restructuring charge of \$1,006 for the year ended December 31, 2014)	(11,621)	(11,638)	(11,002)
Interest income	12	26	201
Loss from equity investment in Great American Real Estate, LLC and Shoon Trading Limited	-	(177 )	(120 )
Gain from bargain purchase	-	-	1,366
Interest expense	(1,262 )	(2,667 )	(2,612 )
(Loss) income before income taxes	(8,681 )	1,280	6,276
Benefit (provision) for income taxes	2,886	(704 )	(1,936 )
Net (loss) income	(5,795 )	576	4,340
Net income (loss) attributable to noncontrolling interests	6	(482 )	819
Net (loss) income attributable to B. Riley Financial, Inc.	\$(5,801 )	\$1,058	\$3,521

Edgar Filing: B. Riley Financial, Inc. - Form 10-K

Capital expenditures:

Auction and Liquidation segment	\$38	\$423	\$394
Valuation and Appraisal segment	1	418	134
Capital Markets segment	104	-	-
UK Retail Stores segment	-	319	106
Total	\$143	\$1,160	\$634

F-32

	As of December 31,	
	2014	2013
Total Assets:		
Auction and Liquidation segment	\$ 41,360	\$ 24,222
Valuation and Appraisal segment	9,527	8,611
Capital Markets segment	48,878	-
Corporate and Other segment	39,225	40,844
Total	\$ 138,990	\$ 73,677

The following table presents revenues by geographical area:

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Revenues - Services and fees:			
United States	\$ 63,417	\$ 50,624	\$ 42,564
Europe	3,840	9,343	23,060
Total Revenues - Services and fees	\$ 67,257	\$ 59,967	\$ 65,624
Revenues - Sale of goods			
United States	\$ 9,859	\$ 9,532	\$ 7,842
Europe	-	6,633	10,470
Total Revenues - Sale of goods	\$ 9,859	\$ 16,165	\$ 18,312
Total Revenues:			
United States	\$ 73,276	\$ 60,156	\$ 50,406
Europe	3,840	15,976	33,530
Total Revenues - Services and fees	\$ 77,116	\$ 76,132	\$ 83,936

The following table presents long-lived assets and identifiable assets by geographical area:

	As of December 31, 2014	As of December 31, 2013
Long-lived Assets - Property and Equipment, net:		
United States	\$ 776	\$ 990
Europe	-	100
Total Long-lived Assets	\$ 776	\$ 1,090
Identifiable Assets:		
United States	\$ 137,216	\$ 68,405
Europe	1,774	5,272

Total Long-lived Assets	\$ 138,990	\$ 73,677
-------------------------	------------	-----------

F-33



**NOTE 21— SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Total revenues	\$21,653	\$14,947	\$20,674	\$19,842
Operating loss	\$(1,258)	\$(1,056)	\$(1,253)	\$(3,664)
Loss before income taxes	\$(1,884)	\$(1,501)	\$(1,303)	\$(3,993)
Benefit for income taxes	\$814	\$594	\$387	\$1,091
Net loss	\$(1,070)	\$(907)	\$(916)	\$(2,902)
Net loss attributable to B. Riley Financial, Inc.	\$(1,334)	\$(777)	\$(868)	\$(2,822)
Earnings (loss) per share:				
Basic	\$(0.93)	\$(0.16)	\$(0.05)	\$(0.18)
Diluted	\$(0.93)	\$(0.16)	\$(0.05)	\$(0.18)
Weighted average shares outstanding:				
Basic	1,434,107	4,972,203	15,911,482	15,902,607
Diluted	1,434,107	4,972,203	15,911,482	15,902,607

	Quarter Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Total revenues	\$20,954	\$15,239	\$21,751	\$18,188
Operating income (loss)	\$2,345	\$(1,935)	\$782	\$2,906
Income (loss) before income taxes	\$1,713	\$(2,582)	\$103	\$2,046
(Provision) benefit for income taxes	\$(778)	\$987	\$133	\$(1,046)
Net income (loss)	\$935	\$(1,595)	\$236	\$1,000
Net loss attributable to B. Riley Financial, Inc.	\$1,289	\$(1,531)	\$366	\$934
Earnings (loss) per share:				
Basic	\$0.90	\$(1.07)	\$0.26	\$0.65
Diluted	\$0.87	\$(1.07)	\$0.24	\$0.62
Weighted average shares outstanding:				
Basic	1,434,107	1,434,107	1,434,107	1,434,107
Diluted	1,482,780	1,434,107	1,494,528	1,495,328

**NOTE 22— SUBSEQUENT EVENTS**

On January 2, 2015, the Company entered into a purchase agreement to acquire all of the equity 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 the Company completed the purchase of MK Capital. The Company is in the process of completing the preliminary purchase price accounting for the acquisition and pro-forma financial information of MK Capital. Upon closing, the Company paid the shareholders of MK Capital \$2,500 in cash and issued 333,333 shares of the Company’s common stock. The purchase agreement also requires the payment of contingent consideration of \$1,250 in cash and 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and a final payment of \$1,250 in cash and 166,666 of common stock on the second anniversary date of the closing (February 2, 2017). The contingent 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 shareholders of MK Capital, the Company entered into a registration rights agreement which allows the selling shareholders 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.

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. (“Payee”) in accordance with the subordinated unsecured promissory note (the “RIP Note”). The principal amount of \$4,500 for the RIP Note accrues interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings are for short-term working capital needs and capital for other retail liquidation engagements. The Payee is 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 shall the Company be obligated to pay to Payee any portion of the combined amount of interest and the Success Fee which exceeds 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, are due and payable by the Company on March 9, 2016. The RIP Note is 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.

Riley Investment Management LLC, a wholly owned subsidiary of the Company, is the general partner of Payee. 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 Payee. In addition, Thomas Kelleher, the President of the Company, and one other employee of the Company, own or control de minimis amounts of the equity interests of the Payee. 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.