

B. Riley Financial, Inc.  
Form 10-K  
March 14, 2018

**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, 2017**

**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 001-37503**

**B. RILEY FINANCIAL, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

**27-0223495**

(State or Other Jurisdiction of

(I.R.S. Employer Identification No.)

Incorporation or Organization)

**21255 Burbank Boulevard, Suite 400**

**91367**

**Woodland Hills, CA**

(Address of Principal Executive Offices) (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

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

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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 NASDAQ Global Market on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$326.4 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 stockholders 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 7, 2018 was 26,634,158.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement relating to the registrant's 2018 Annual Meeting of Stockholders 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, 2017**

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## 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; our ability to meet future capital requirements; our ability to realize the benefits of our completed and proposed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; the possibility that our proposed acquisition of magicJack VocalTec Ltd. (“magicJack”) does not close when expected or at all; our ability to promptly and effectively integrate our business with that of magicJack if such transaction closes; the reaction to the magicJack acquisition of our and magicJack’s customers, employees and counterparties; and the diversion of management time on acquisition-related issues. 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,” “B. Riley Financial,” “we,” “us” or “our” refer to the combined business of B. Riley Financial, Inc. and all of its subsidiaries.*

### Item 1. BUSINESS

*General*

B. Riley Financial, Inc. (NASDAQ: RILY) and its subsidiaries provide collaborative financial services and solutions through several operating subsidiaries including:

B. Riley FBR, Inc. (“B. Riley FBR”) is a leading, full service investment bank providing financial advisory, corporate finance, research, securities lending and sales & trading services to corporate, institutional and high net worth individual clients. B. Riley FBR was formed in November 2017 through the merger of B. Riley & Co, LLC (“BRC”) and FBR Capital Markets & Co.; the name of the combined broker dealer was subsequently changed to B. Riley FBR, Inc. FBR Capital Markets & Co. was acquired by B. Riley Financial in June 2017.

Wunderlich Securities, Inc., acquired by B. Riley Financial in July 2017, provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments.

B. Riley Capital Management, LLC, a Securities and Exchange Commission (“SEC”) registered investment advisor, which includes:

B. Riley Asset Management, an advisor to certain private funds and to institutional and high net worth investors;

B. Riley Wealth Management, a multi-family office practice and wealth management firm focused on the needs of ultra-high net worth individuals and families; and

Great American Capital Partners, LLC (“GACP”), the general partner of a private fund, GACP I, L.P. a direct lending fund that provides senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies;

Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients;



Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients.

We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. On July 1, 2016, we acquired United Online, Inc. (“UOL”) as part of our principal investment strategy.

UOL is a communications company that offers consumer subscription services and products, consisting of Internet access services and devices under the NetZero and Juno brands primarily sold in the United States.

We are headquartered in Los Angeles with offices in major cities throughout the United States including New York, Chicago, Boston, Memphis, and Metro Washington D.C.

For financial reporting purposes we classify our businesses into four operating segments: (i) capital markets, (ii) auction and liquidation, (iii) valuation and appraisal and (iv) principal investments - United Online.

Capital Markets Segment. Our capital markets segment provides a full array of investment banking, corporate finance, research, securities lending, wealth management, sales and trading services to corporate, institutional and high net worth clients. Our corporate finance and investment banking services include merger and acquisitions as well as restructuring advisory services to public and private companies, initial and secondary public offerings, and institutional private placements. In addition, we trade equity securities as a principal for our account, including investments in funds managed by our subsidiaries. Our capital markets segment also includes our asset management businesses that manage various private and public funds for institutional and individual investors.

Auction and Liquidation Segment. Our auction and liquidation segment utilizes our significant industry experience, a 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. Furthermore, our scale and pool of resources allow us to offer our services across North American as well as parts of Europe, Asia and Australia. Our auction and liquidation segment operates through two main divisions, retail store liquidations and wholesale and industrial assets dispositions. Our wholesale and industrial assets disposition division operates through limited liability companies that are controlled by us.

Valuation and Appraisal Segment. Our valuation and appraisal segment provides valuation and appraisal services to financial institutions, lenders, private equity firms 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 segment operates through limited liability companies that are majority owned by us.

Principal Investments - United Online Segment. Our principal investments - United Online segment consists of businesses which have been acquired primarily for attractive investment return characteristics. Currently, this segment includes UOL, a company that offers consumer subscription services consisting of Internet access under the NetZero and Juno brands. Internet access includes paid dial-up, mobile broadband and DSL subscription services. We also offer email, Internet security, web hosting services, and other services.

### ***Recent Developments***

On February 17, 2017, we entered into an Agreement and Plan of Merger (the “FBR Merger Agreement”) with FBR & Co. (“FBR”), pursuant to which FBR was to merge with and into the Company (or a subsidiary of the Company), with the Company (or its subsidiary) as the surviving corporation (the “FBR Merger”). On May 1, 2017, the Company and FBR filed a registration statement for the planned FBR Merger. The shareholders of the Company and FBR approved the acquisition on June 1, 2017, customary closing conditions were satisfied and the acquisition was completed on June 1, 2017. Subject to the terms and conditions of the FBR Merger Agreement, each outstanding share of FBR common stock (“FBR Common Stock”) was converted into the right to receive 0.671 of a share of our common stock. The total acquisition consideration for FBR was estimated to be \$73.5 million, which includes the issuance of approximately 4,831,633 shares of our common stock with an estimated fair value of \$71.0 million (based on the closing price of our common stock on June 1, 2017) and restricted stock awards with a fair value of \$2.5 million attributable to the service period prior to June 1, 2017. We believe that the acquisition of FBR will allow us to benefit from investment banking, corporate finance, securities lending, research, and sales and trading services provided by FBR and planned synergies from the elimination of duplicate corporate overhead and management functions with us.

On May 17, 2017, we entered into a Merger Agreement with Wunderlich Investment Company, Inc., a Delaware corporation (“Wunderlich”), and a Wunderlich Stockholder Representative (the “Stockholder Representative”), collectively (the “Wunderlich Merger Agreement”). Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. We also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017. The Registration Rights Agreement provides the Wunderlich shareholder signatories with the right to notice of and, subject to certain conditions, the right to register shares of our common stock in certain future registered offerings of shares of our common stock. In connection with the acquisition Wunderlich on July 3, 2017, the total consideration of \$65.1 million included \$29.7 million of cash and the issuance of approximately 1,974,812 shares of the Company’s common stock with an estimated fair value of \$31.5 million and 821,816 newly issued common stock warrants with an estimated fair value of \$3.9 million.

On November 9, 2017, the Company entered into an Agreement and Plan of Merger with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the Company (“Merger Sub”), and magicJack VocalTec Ltd., an Israeli corporation (“magicJack”), pursuant to which Merger Sub will merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Subject to the terms and conditions of the Agreement and Plan of Merger, each outstanding share of magicJack will be converted into the right to receive \$8.71 in cash without interest, representing approximately \$143.5 million in aggregate merger consideration. The closing of the transaction is subject to the receipt of certain regulatory approvals, the approval of the magicJack shareholder’s and the satisfaction of other closing conditions. It is anticipated that the acquisition of magicJack will close in the first half of 2018.

During the year ended December 31, 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of FBR and Wunderlich which included a reduction in force for some of the corporate executives of FBR and Wunderlich and a restructuring to integrate FBR and Wunderlich’s operations with our operations. These initiatives resulted in restructuring charges of \$11.7 million during the year ended December 31, 2017. Restructuring charges included \$3.3 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of FBR and Wunderlich and \$5.0 million of severance, accelerated vesting of stock awards to employees and \$3.4 million of lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

## **B. Riley FBR**

### *Investment Banking and Corporate Finance*

B. Riley FBR’s investment banking professionals provide equity and debt capital raising, merger and acquisition, financial advisory and restructuring 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 FBR sales and trading also sells the securities of companies in which B. Riley FBR 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. B. Riley FBR also conducts securities lending activities which involves the borrowing and lending of equity and fixed income 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 18 consecutive annual institutional investor conferences.

### *Capital Management*

We provide investment management services under our subsidiary, B. Riley Capital Management, LLC, an SEC registered investment advisor. The registered investment advisor manages one mutual fund and certain other private investment funds, including a fund of funds. All of the funds managed typically invest in both public and private equity and debt. Investors in the various funds include institutional, high net worth, and individual investors. GACP is the general partner of GACP I, L.P., a direct lending fund that provides senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

### *Proprietary Trading*

We engage in trading activities for strategic investment purposes (i.e. proprietary trading) utilizing the firm's capital. Proprietary trading activities include investments in public and private stock and debt securities. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry and includes a section referred to as the "Volcker Rule". The Volcker Rule provides for a limitation on proprietary trading and investments by certain bank holding companies. We are not a bank holding company and, as a result, the limitations applicable to bank holding companies regarding proprietary trading and investment in the Volcker Rule do not apply to us.

The business described above for B. Riley FBR is reported in our capital markets segment for financial reporting purposes.

### **Wunderlich Securities**

#### *Wealth Management*

Wunderlich provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments. Our financial advisors provide a broad range of investments and services to our clients, including financial planning services. Established in 1996 and headquartered in Memphis, Tennessee, Wunderlich became a wholly-owned subsidiary of B. Riley Financial, Inc., in July 2017 and its operations are included in our capital markets segment.

## Great American Group

### *Retail Store Liquidations and Wholesale and Industrial Liquidations*

We enable our clients to quickly and efficiently dispose of under-performing assets and generate cash from excess inventory by conducting or assisting in retail store closings, going out of business sales, bankruptcy sales and fixture sales. 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.

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 could not 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.

We design and implement customized disposition programs for our clients seeking to convert excess wholesale and industrial inventory and operational assets into capital. We dispose of a wide array of assets including, among others, equipment related to transportation, heavy mobile construction, energy exploration and services, metal fabrication, food processing, semiconductor fabrication, and distribution services. 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.

Great American Group provides the foregoing services to clients 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.

The retail store liquidations and wholesale and industrial asset dispositions business of Great American Group described above is reported in our auction and liquidation segment for financial reporting purposes.

### *Valuation and Appraisal*

Our valuation and appraisal teams provide independent appraisals to financial institutions, lenders, private equity firms and other providers of capital 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.

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

The valuation and appraisal services business of Great American Group described above is reported in our valuation and appraisal segment for financial reporting purposes.

### **Principal Investments - United Online**

We acquired UOL on July 1, 2016 as part of our principal investment strategy. UOL's primary pay service is Internet access, offered under the NetZero and Juno brands. Internet access includes dial-up service, mobile broadband and DSL.

#### *Internet Access*

Our Internet access services consist of dial-up, mobile broadband and, to a much lesser extent, DSL services. Our dial-up Internet access services are provided on both a free and pay basis, with the free services subject to hourly and other limitations. Basic pay dial-up Internet access services include accelerated dial-up Internet access and an email account. Our Internet access services are also bundled with additional benefits, including antivirus software and enhanced email storage, although we also offer each of these features and certain other value-added features as stand-alone pay services. We offer mobile broadband devices for sale in connection with our mobile broadband services. We also generate revenues from the resale of telecommunications to third parties. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid



subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments - United Online segment to continue to decline year over year.

*Advertising and other revenue*

Advertising and other revenues are primarily derived from various advertising, marketing and media-related initiatives. The majority of our advertising and other revenues include advertising revenues from search placements, display advertisements and online market research associated with our Internet access and email services.

**Customers**

We serve retail, corporate, capital provider and individual customers across our services lines. 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.

*B. Riley FBR*

We are engaged by corporate customers, including publicly held and privately owned companies, to provide investment banking, corporate finance, restructuring advisory, research and sales and trading services. We also provide corporate finance, research, wealth management, 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.

*Wunderlich*

We act as financial wealth management advisors to individuals, families, small businesses, non-profit organizations, and qualified retirement plans. Our investment services are primarily comprised of asset management services to meet the financial plans, financial goals and needs of our customers. We service our customers through a network of 25 branch offices located in 16 states primarily located in the Mid-west and Southern section of the United States.

*Great American Group*

Our retail auction and liquidation 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. We also provide wholesale and industrial auction services and customized disposition programs to a wide range of clients.

We are engaged by financial institutions, lenders, private equity firms 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, JPMorgan Chase, and Wells Fargo.

#### *United Online*

Our Internet access services are available to customers, which are primarily comprised of individuals, in more than 12,000 cities across the U.S. and Canada. Generally, our Internet access customers also subscribe to value-added features that include antivirus software and enhanced email storage. Our advertising customers primarily include business customers that market products and services over the Internet.

#### **Competition**

##### *B. Riley FBR and Wunderlich*

We 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.

#### *Great American Group*

We also face intense competition for our auction and liquidation and valuation and appraisal services. 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.

*United Online*

The U.S. market for Internet and broadband services is highly competitive. We compete with numerous providers of broadband services, as well as other dial-up Internet access providers. Our principal competitors for broadband services include, among others, local exchange carriers, wireless and satellite service providers, cable service providers, and broadband resellers. These competitors include established providers such as AT&T, Verizon, Sprint and T-Mobile. Our principal dial-up Internet access competitors include established online service and content providers, such as AOL and MSN, and independent national Internet service providers, such as EarthLink. We believe the primary competitive factors in the Internet access industry are speed, price, coverage area, ease of use, scope of services, quality of service, and features. Our dial-up Internet access services do not compete favorably with broadband services with respect to certain of these factors, including, but not limited to, speed.

**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.

B. Riley FBR and Wunderlich, our broker-dealer subsidiaries, are 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.

B. Riley FBR and Wunderlich are registered as securities broker-dealers with the SEC and are members 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. B. Riley FBR and Wunderlich are licensed as broker-dealers in 50 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.

B. Riley FBR and Wunderlich are 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 subsidiaries. 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, B. Riley FBR and Wunderlich are 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, B. Riley Capital Management, LLC and Wunderlich 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 Dodd-Frank. Dodd-Frank 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 Dodd-Frank 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.

UOL is subject to a number of international, federal, state, and local laws and regulations, including, without limitation, those relating to taxation, bulk email or “spam,” advertising, user privacy and data protection, consumer protection, antitrust, export, and unclaimed property. In addition, proposed laws and regulations relating to some or all of the foregoing, as well as to other areas affecting our businesses, are continuously debated and considered for adoption in the U.S. and other countries, and such laws and regulations could be adopted in the future. For additional information, see “Risk Factors,” which appears in Item 1A of this Annual Report on Form 10-K.

## **Employees**

As of December 31, 2017, we had 833 full 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.

## **Acquisition of MK Capital**

On February 2, 2015, we completed the purchase of all of the membership interests of MK Capital Advisors, LLC (“MK Capital”), a wealth management business with operations primarily in New York, pursuant to a purchase agreement we entered into with MK Capital on January 2, 2015. The aggregate purchase price for the acquisition, including contingent consideration paid in February 2016 and February 2017 upon the satisfaction of certain conditions, was \$5.0 million in cash and 666,666 shares of our common stock. We subsequently changed the name of MK Capital to B. Riley Wealth Management.

### **Acquisition of FBR**

On June 1, 2017, we acquired all of the outstanding common stock of FBR, a mid-sized investment bank with operations primarily in Washington D.C and New York, pursuant to the FBR Merger Agreement dated February 17, 2017. The aggregate purchase price for the acquisition was \$73.5 million in a stock transaction through the issuance of 4,831,633 shares of our common stock. The acquisition of FBR is accounted for using the purchase method of accounting. The Company believes that the acquisition of FBR will allow the Company to benefit from investment banking, corporate finance, securities lending, research, and sales and trading services provided by FBR and planned synergies from the elimination of duplicate corporate overhead and management functions with the Company. Upon completion of the acquisition, we integrated and merged the investment banking operations of BRC with and into FBR and changed the name of FBR to B. Riley FBR in the fourth quarter of 2017. In connection with the acquisition and integration of these operations we recorded a restructuring charge of \$9.7 million during the year ended December 31, 2017.

### **Acquisition of Wunderlich**

On May 17, 2017, the Company entered into a Merger Agreement (the “Wunderlich Merger Agreement”) with Wunderlich, a Delaware Corporation. Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. In connection with the Wunderlich acquisition on July 3, 2017, the total consideration of \$65,118 paid to Wunderlich shareholders was comprised of (a) cash in the amount of \$29,737; (b) 1,974,812 newly issued shares of the Company’s common stock at closing which were valued at \$31,495 for accounting purposes determined based on the closing market price of the Company’s shares of common stock on the acquisition date on July 3, 2017; and (c) 821,816 newly issued common stock warrants with an estimated fair value of \$3,886. The common stock and common stock warrants issued includes 387,365 common shares and 167,352 common stock warrants that are held in escrow and subject to forfeiture to indemnify the Company for certain representations and warranties in connection with the acquisition. The Company believes that the acquisition of Wunderlich will allow the Company to benefit from wealth management, investment banking, corporate finance, and sales and trading services provided by Wunderlich. The acquisition of Wunderlich is accounted for using the purchase method of accounting. The Company also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017 for the shares issued in connection with the Wunderlich Merger Agreement. The Registration Rights Agreement provides the Wunderlich shareholders with the right to notice of and, subject to certain conditions, the right to register shares of the Company’s common stock in certain future registered offerings of shares of the Company’s common stock. In connection with the acquisition of Wunderlich we recorded a restructuring charge of \$1.5 million during the year ended December 31, 2017.

### **Other**



We were incorporated in Delaware in May 2009 as a subsidiary of Alternative Asset Management Acquisition Corp. (“AAMAC”). On July 31, 2009, we closed a transaction pursuant to which (i) the members of Great American Group, LLC contributed to us all of their membership interests in Great American Group, LLC, and (ii) AAMAC merged with and into our wholly-owned subsidiary. As a result of such transactions, Great American Group, LLC and AAMAC became our wholly-owned subsidiaries. Following the acquisition of B. Riley and Co. Inc. in June 2014, we changed our name from Great American Group, Inc. to B. Riley Financial, Inc. in November 2014.

### **Available Information**

We maintain a website at *www.brileyfin.com*. We file reports with the 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 businesses;

The rate of decline we experience from our dial-up and DSL Internet access pay accounts in our UOL business as customers continue to migrate to broadband access which provides faster Internet connection and download speeds offered by our competitors;

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 at-the-market 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, if any, at values significantly lower than the values at which investments have been reflected on our balance sheet 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 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 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 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 23.4% of our outstanding common stock as of December 31, 2017. In particular, our Chairman and Chief Executive Officer, Bryant R. Riley, owns or controls, in the aggregate, 4,262,561 shares of our common stock or 16.0% of our outstanding common stock as of December 31, 2017. 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 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, in the case of our asset and liquidation services, the 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.

UOL competes with numerous providers of broadband, mobile broadband and DSL services, as well as other dial-up Internet access providers, many of whom are large and have significantly more financial and marketing resources. The principal competitors for UOL's mobile broadband and DSL services include, among others, local exchange carriers, wireless and satellite service providers, and cable service providers.

***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.***

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

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

Our common shares began trading on the over-the-counter bulletin board in August 2009, and we obtained approval to list and trade our shares on The NASDAQ Stock Market LLC's NASDAQ Capital Market on July 16, 2015. On November 16, 2016, we began trading our shares on the NASDAQ Stock Market LLC's NASDAQ Global Market. Trading of our common stock has in the past been highly volatile with low trading volume and an active trading market for shares of our common stock may not develop. In such case, selling shares of our common stock may be difficult because the limited trading market for our shares could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume. Further, the market price of shares of our common stock could continue to fluctuate substantially. Additionally, if we are not able to maintain our listing on NASDAQ, then our common stock will again be quoted for trading on an over-the-counter quotation system and may be subject to more significant fluctuations in stock price and trading volume and large bid and ask price spreads.

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

Our amended and restated certificate of incorporation provides that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 1,000,000 shares of preferred stock in one or more

series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change of control of our company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

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

Our amended and restated certificate of incorporation and our bylaws, as amended, contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. 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. The foregoing and other provisions in our amended and restated certificate of incorporation, our bylaws, as amended, and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

***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 Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). 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 a result of the acquisition of UOL on July 1, 2016, the historical net operating losses of UOL are limited to offset income we generate post acquisition. As of December 31, 2017, 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.

***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”) instituted a wide range of reforms that have impacted and will continue to impact financial services firms and continues to require significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. 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 advisors 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 remain subject to further rule making procedures and studies and will continue to take effect over several years. As a result, we cannot assess the full impact of all of these 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 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 which we do business may be even more limited. We may suffer reputational harm for any misconduct by our employees or those entities with which we do business.

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

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.



***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, clients and business partners, and personally identifiable information of our employees, in our servers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties. In addition, such a breach could disrupt our operations and the services we provide to our clients, damage our reputation, and cause a loss of confidence in our services, which could adversely affect our business and our financial condition.

***We may enter into new lines of business, make strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties for our business.***

We may enter into new lines of business, make future strategic investments or acquisitions and enter into joint ventures. As we have in the past, and subject to market conditions, we may grow our business by increasing assets under management in existing investment strategies, pursue new investment strategies, which may be similar or complementary to our existing strategies or be wholly new initiatives, or enter into strategic relationships, or joint ventures. In addition, opportunities may arise to acquire or invest in other businesses that are related or unrelated to our current businesses.

To the extent we make strategic investments or acquisitions, enter into strategic relationships or joint ventures or enter into new lines of business, we will face numerous risks and uncertainties, including risks associated with the required investment of capital and other resources and with combining or integrating operational and management systems and controls and managing potential conflicts. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues, or produces investment losses, or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected, and our reputation and business may be harmed. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

***Our results of operations after the acquisitions of FBR and Wunderlich may be affected by factors different from those that affected our independent results of our operations.***

Our business and the business of each of FBR and Wunderlich differ in certain respects and, accordingly, the results of operations of the combined company and the market price of the combined company's common shares may be affected by factors different from those that affected our independent results of operations.

***The combined company may fail to realize the anticipated benefits of our acquisitions of FBR and Wunderlich.***

The success of the acquisitions of FBR and Wunderlich will depend on, among other things, the combined company's ability to combine the businesses of us, FBR and Wunderlich. If the combined company is not able to successfully achieve this objective, the anticipated benefits of each merger may not be realized fully, or at all, or may take longer to realize than expected.

Prior to the consummation of acquisitions, we and each of FBR and Wunderlich operated independently. It is possible that the integration process or other factors could result in the loss or departure of key employees, the disruption of the ongoing business of us, FBR or Wunderlich, or inconsistencies in standards, controls, procedures and policies. It is also possible that clients, customers and counterparties of us, FBR or Wunderlich could choose to discontinue their relationships with the combined company because they prefer doing business with an independent company or for any other reason, which would adversely affect the future performance of the combined company. These transition matters could have an adverse effect on us for an undetermined amount of time after the consummation of the acquisitions of FBR and Wunderlich.

***We may experience difficulties in realizing the expected benefits of the acquisition of UOL.***

Our ability to achieve the benefits we anticipate from the acquisition of UOL will depend in large part upon whether we are able to achieve expected cost savings, manage UOL's business and execute our strategy in an efficient and effective manner. Because our business and the business of UOL differ, we may not be able to manage UOL's business smoothly or successfully and the process of achieving expected cost savings may take longer than expected. If we are unable to manage the operations of UOL's business successfully, we may be unable to realize the cost savings and other anticipated benefits we expect to achieve as a result of the UOL acquisition. As a result, our business and results of operations could be adversely affected and the market price of our common stock could be negatively impacted.

***UOL competes against large companies, many of whom have significantly more financial and marketing resources, and our business will suffer if we are unable to compete successfully.***

UOL competes with numerous providers of broadband, mobile broadband and DSL services, as well as other dial-up Internet access providers, many of whom are large and have significantly more financial and marketing resources. The principal competitors for UOL's mobile broadband and DSL services include, among others, local exchange carriers, wireless and satellite service providers, and cable service providers. These competitors include established providers such as AT&T, Verizon, Sprint, and T-Mobile. UOL's principal dial-up Internet access competitors include established online service and content providers, such as AOL and MSN, and independent national Internet service providers, such as EarthLink and its PeoplePC subsidiary. Dial-up Internet access services do not compete favorably with broadband services with respect to connection speed and do not have a significant, if any, price advantage over certain broadband services. In addition, there are a number of mobile virtual network operators, some of which focus on pricing as their main selling point. Certain portions of the U.S., primarily rural areas, currently have limited or no access to broadband services. However, the U.S. government has indicated its intention to facilitate the provision of broadband services to such areas. Such expansion of the availability of broadband services will increase the competition for Internet access subscribers in such areas and will likely adversely affect the UOL business. In addition to competition from broadband, mobile broadband, and DSL providers, competition among dial-up Internet access service providers is intense and neither UOL's pricing nor the features of UOL's services provides us with a significant competitive advantage, if any, over certain of UOL's dial-up Internet access competitors. We expect that competition, particularly with respect to price, for broadband, mobile broadband, and DSL services, as well as dial-up Internet access services, will continue and may materially and adversely impact our business, financial condition, results of operations, and cash flows.

***Dial-up and DSL pay accounts may decline faster than expected and adversely impact our business.***

A significant portion of UOL's revenues and profits come from dial-up Internet and DSL access services and related services and advertising revenues. UOL's dial-up and DSL Internet access pay accounts and revenues have been declining and are expected to continue to decline due to the continued maturation of the market for dial-up and DSL Internet access, competitive pressures in the industry and limited sales efforts. Consumers continue to migrate to broadband access, primarily due to the faster connection and download speeds provided by broadband access. Advanced applications such as online gaming, music downloads and videos require greater bandwidth for optimal performance, which adds to the demand for broadband access. The pricing for basic broadband services has been declining as well, making it a more viable option for consumers. In addition, the popularity of accessing the Internet through tablets and mobile devices has been growing and may accelerate the migration of consumers away from dial-up Internet access. The number of dial-up Internet access pay accounts has been adversely impacted by both a decrease in the number of new pay accounts signing up for UOL's services, as well as the impact of subscribers canceling their accounts, which we refer to as "churn." Churn has increased from time to time and may increase in the future. If we experience a higher than expected level of churn, it will make it more difficult for us to increase or maintain the number of pay accounts, which could adversely affect our business, financial condition, results of operations, and cash flows.

We expect UOL's dial-up and DSL Internet access pay accounts to continue to decline. As a result, related services revenues and the profitability of this segment may decline. The rate of decline in these revenues may continue to accelerate.

We may not be able to consistently make a high level of expense reductions in the future. Continued declines in revenues relating to the UOL business, particularly if such declines accelerate, will materially and adversely impact the profitability of this business.

***Failure to maintain or grow advertising revenues from UOL, including as a result of failing to increase or maintain the number of subscribers for UOL's services, could have a negative impact on advertising profitability.***

Advertising revenues are a key component of revenues and profitability from UOL. UOL's services currently generate advertising revenues from search placements, display advertisements and online market research associated with Internet access and email services. Factors that have caused, or may cause in the future, UOL's advertising revenues to fluctuate include, without limitation, changes in the number of visitors to UOL's websites, active accounts or consumers purchasing our services and products, the effect of, changes to, or terminations of key advertising relationships, changes to UOL's websites and advertising inventory, changes in applicable laws, regulations or business practices, including those related to behavioral or targeted advertising, user privacy, and taxation, changes in business models, changes in the online advertising market, changes in the economy, advertisers' budgeting and buying

patterns, competition, and changes in usage of UOL's services. Decreases in UOL's advertising revenues are likely to adversely impact our profitability. Further, our successful operation and management of UOL, including the ability to generate advertising revenues for UOL's services, will depend in part upon our ability to increase or maintain the number of subscribers for UOL's services. A decline in the number of subscribers using UOL's services could result in decreased advertising revenues, and decreases in advertising revenues would adversely impact our profitability. The failure to increase or maintain the number of subscribers for UOL's services could have a material adverse effect on advertising revenues and our profitability.

***Interruption or failure of the network, information systems or other technologies essential to the UOL business could impair our ability to provide services relating to the UOL business, which could damage our reputation and harm our operating results.***

Our successful operation of the UOL business depends on our ability to provide reliable service. Many of UOL's products are supported by data centers. UOL's network, data centers, central offices and those of UOL's third-party service providers are vulnerable to damage or interruption from fires, earthquakes, hurricanes, tornados, floods and other natural disasters, terrorist attacks, power loss, capacity limitations, telecommunications failures, software and hardware defects or malfunctions, break ins, sabotage and vandalism, human error and other disruptions that are beyond our control. Some of the systems serving the UOL business are not fully redundant, and our disaster recovery or business continuity planning may not be adequate. The UOL business could also experience interruptions due to cable damage, theft of equipment, power outages, inclement weather and service failures of third-party service providers. The occurrence of any disruption or system failure or other significant disruption to business continuity may result in a loss of business, increase expenses, damage to reputation for providing reliable service, subject us to additional regulatory scrutiny or expose us to litigation and possible financial losses, any of which could adversely affect our business, results of operations and cash flows.

***We may be accused of infringing upon the intellectual property rights of third parties, which is costly to defend and could limit our ability to use certain technologies in the future.***

From time to time third parties have alleged that UOL infringes on their intellectual property rights, including patent rights. We may be unaware of filed patent applications and of issued patents that could be related to the products and services we acquired in the UOL acquisition. These claims are often made by patent holding companies that are not operating companies. The alleging parties generally seek royalty payments for prior use as well as future royalty streams. Defending against disputes, litigation or other legal proceedings, whether or not meritorious, may involve significant expense and diversion of management's attention and resources from other matters. Due to the inherent uncertainties of litigation, we may not prevail in these actions. Both the costs of defending lawsuits and any settlements or judgments against us could adversely affect our results of operations and cash flows.

***If there are events or circumstances affecting the reliability or security of the Internet, access to the websites related to the UOL business and/or the ability to safeguard confidential information could be impaired causing a negative effect on the financial results of our business operations.***

Our website infrastructure and the website infrastructure of UOL may be vulnerable to computer viruses, hacking or similar disruptive problems caused by customers, other Internet users, other connected Internet sites, and the interconnecting telecommunications networks. Such problems caused by third-parties could lead to interruptions, delays or cessation of service to the customers of the UOL products and services. Inappropriate use of the Internet by third-parties could also potentially jeopardize the security of confidential information stored in our computer system, which may deter individuals from becoming customers. There can be no assurance that any such measures would not be circumvented in future. Dealing with problems caused by computer viruses or other inappropriate uses or security breaches may require interruptions, delays or cessation of service to customers, which could have a material adverse effect on our business, financial condition and results of operations.

***The UOL business processes, stores and uses personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.***

The UOL business receives, stores and processes personal information and other customer data, and UOL enables customers to share their personal information with each other and with third parties. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other customer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We will generally comply with industry standards and are and will be subject to the terms of privacy policies and privacy-related obligations to third parties. We will strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection, to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or UOL's practices. Any failure or perceived failure to comply with UOL's privacy policies, privacy-related obligations to customers or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause customers to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate applicable laws or policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business.

***Our marketing efforts for UOL's business may not be successful or may become more expensive, either of which could increase our costs and adversely impact our business, financial condition, results of operations, and cash flows.***

We rely on relationships for our UOL business with a wide variety of third parties, including Internet search providers such as Google, social networking platforms such as Facebook, Internet advertising networks, co-registration partners, retailers, distributors, television advertising agencies, and direct marketers, to source new members and to promote or distribute our services and products. In addition, in connection with the launch of new services or products for our UOL business, we may spend a significant amount of resources on marketing. With any of our brands, services, and products, if our marketing activities are inefficient or unsuccessful, if important third-party relationships or marketing strategies, such as Internet search engine marketing and search engine optimization, become more expensive or unavailable, or are suspended, modified, or terminated, for any reason, if there is an increase in the proportion of consumers visiting our websites or purchasing our services and products by way of marketing channels with higher marketing costs as compared to channels that have lower or no associated marketing costs, or if our marketing efforts do not result in our services and products being prominently ranked in Internet search listings, our business, financial condition, results of operations, and cash flows could be materially and adversely impacted.

***Our UOL business is dependent on the availability of telecommunications services and compatibility with third-party systems and products.***

Our UOL business substantially depends on the availability, capacity, affordability, reliability, and security of our telecommunications networks. Only a limited number of telecommunications providers offer the network and data services we currently require for our UOL business, and we purchase most of our telecommunications services from a few providers. Some of our telecommunications services are provided pursuant to short-term agreements that the providers can terminate or elect not to renew. In addition, some telecommunications providers may cease to offer network services for certain less populated areas, which would reduce the number of providers from which we may purchase services and may entirely eliminate our ability to purchase services for certain areas. Currently, our mobile broadband service of our UOL business is entirely dependent upon services acquired from one service provider, and the devices required by the provider can be used for only such provider's service. If we are unable to maintain, renew or obtain a new agreement with the telecommunications provider on acceptable terms, or the provider discontinues its services, our business, financial condition, results of operations, and cash flows could be materially and adversely affected. Sprint, which owns Clearwire, ceased using WiMAX technology on the Clearwire network. This affected our mobile broadband subscribers for our UOL business that utilized the Clearwire network.

Our dial-up Internet access services of our UOL business also rely on their compatibility with other third-party systems, products and features, including operating systems. Incompatibility with third-party systems and products could adversely affect our ability to deliver our services or a user's ability to access our services and could also adversely impact the distribution channels for our services. Our dial-up Internet access services are dependent on dial-up modems and an increasing number of computer manufacturers, including certain manufacturers with whom we have distribution relationships, do not pre-load their new computers with dial-up modems, requiring the user to separately acquire a modem to access our services. We cannot assure you that, as the dial-up Internet access market declines and new technologies emerge, we will be able to continue to effectively distribute and deliver our services.

***Government regulations could adversely affect our business or force us to change our business practices .***

The services that are provided by UOL are subject to varying degrees of international, federal, state and local laws and regulation, including, without limitation, those relating to taxation, bulk email or "spam," advertising (including, without limitation, targeted or behavioral advertising), user privacy and data protection, consumer protection, antitrust, export, and unclaimed property .. Compliance with such laws and regulations, which in many instances are unclear or unsettled, is complex. New laws and regulations, such as those being considered or recently enacted by certain states, the federal government, or international authorities related to automatic-renewal practices, spam, user privacy, targeted or behavioral advertising, and taxation, could impact our revenues or certain of our business practices or those of our advertisers.

UOL resells broadband Internet access services offered by other parties pursuant to wholesale agreements with those providers. In an order released in March 2015, the Federal Communications Commission (the "FCC") classified retail broadband Internet access services as telecommunications services subject to regulation under Title II of the Communications Act. That ruling is subject to a pending appeal. The classification of retail broadband Internet access services as telecommunications services means that providers of these services are subject to the general requirement that their charges, practices and classifications for telecommunications services be "just and reasonable," and that they refrain from engaging in any "unjust or unreasonable discrimination" with respect to their charges, practices or classifications. However, the FCC has not determined what, if any, regulations will apply to wholesale broadband Internet access services, and it is uncertain whether it will adopt requirements that will be favorable or unfavorable to us. It is also possible that the classification of retail broadband Internet access services will be overturned on appeal, that Congress will adopt legislation reversing that decision, or that a future FCC will reverse that decision.

Broadband Internet access is also currently classified as an "information service." While current policy exempts broadband Internet access services (but not all broadband services) from contributing to the Universal Service Fund ("USF"), Congress and the FCC may consider expanding the USF contribution base to include broadband Internet access services. If broadband Internet access providers become subject to USF contribution obligations, they would likely impose a USF surcharge on end users. Such a surcharge will raise the effective cost of our broadband services to UOL's customers, which could adversely affect customer satisfaction and have an adverse impact on our revenues and profitability.



Failure to make proper payments for federal USF contributions, FCC regulatory fees or other amounts mandated by federal and state regulations; failure to maintain proper state tariffs and certifications; failure to comply with federal, state or local laws and regulations; failure to obtain and maintain required licenses, franchises and permits; imposition of burdensome license, franchise or permit requirements for us to operate in public rights-of-way; and imposition of new burdensome or adverse regulatory requirements could limit the types of services we provide or the terms on which we provide these services.

We cannot predict the outcome of any ongoing legislative initiatives or administrative or judicial proceedings or their potential impact upon the communications and information technology industries generally or upon the UOL business specifically. Any changes in the laws and regulations applicable to UOL, the enactment of any additional laws or regulations, or the failure to comply with, or increased enforcement activity by regulators of, such laws and regulations, could significantly impact our services and products, our costs, or the manner in which we or our advertisers conduct business, all of which could adversely impact our business, financial condition, results of operations, and cash flows and cause our business to suffer.

The FCC and some states require us to obtain prior approval of certain major merger and acquisition transactions, such as the acquisition of control of another telecommunications carrier. Delays in obtaining such approvals could affect our ability to close proposed transactions in a timely manner, and could increase our costs and increase the risk of non-consummation of some transactions.

***We manage debt investments that involve significant risks and potential additional liabilities.***

GACP I., L.P., a direct lending fund of which our wholly owned subsidiary GACP is the general partner, may invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by the fund. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (*i.e.*, the owners of first priority liens) generally will be entitled to receive proceeds from any realization of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, the fund) will be entitled to receive proceeds from the realization of the collateral securing such debt. There can be no assurances that the proceeds, if any, from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that the fund owns secured debt that is junior to other secured debt, the fund may lose the value of its entire investment in such secured debt.

In addition, the fund may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

***Our level of indebtedness, and restrictions under such indebtedness, could adversely affect our operations and liquidity***

In December 2017, we completed an offering of 7.25% Senior Notes due 2027 with an aggregate principal amount of \$80.5 million. In May 2017, we completed an offering of 7.50% Senior Notes due 2027 with an aggregate principal amount of \$60.4 million. In November 2016 we completed an offering of 7.50% Senior Notes due 2021 with an aggregate principal amount of \$28.8 million. In 2017, we also entered into an At Market Issuance Sales Agreement with B. Riley FBR to sell additional 7.50% Senior Notes due 2027 and 7.50% Senior Notes due 2021, under which agreement we sold \$32.1 million in aggregate principal amount of 7.50% Senior Notes due 2027 and \$6.5 million in aggregate principal amount of 7.50% Senior Notes due 2021 as of December 31, 2017. On December 18, 2017, we entered into an At Market Issuance Sales Agreement with B. Riley FBR to issue up to an additional aggregate principal amount of \$19.0 million of additional 7.25% Senior Notes due 2027, 7.50% Senior Notes due 2027 and 7.50% Senior Notes due 2021. The terms of such indebtedness contain various restrictions and covenants regarding the operation of our business, including, but not limited to, restrictions on our ability to merge or consolidate with or

into any other entity. In April 2017, we amended our Credit Agreement with Wells Fargo Bank (the “Wells Fargo Credit Agreement”) to increase our retail liquidation line of credit from \$100 million to \$200 million and we also entered into a credit agreement with the Banc of California that provides for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20 million. We may also secure additional debt financing in the future in addition to our current debt. Our level of indebtedness generally could adversely affect our operations and liquidity, by, among other things: (i) making it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because we may not have sufficient cash flows to make our scheduled debt payments; (ii) causing us to use a larger portion of our cash flows to fund interest and principal payments, thereby reducing the availability of cash to fund working capital, capital expenditures and other business activities; (iii) making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities or other strategic transactions, and to react to changes in market or industry conditions; and (iv) limiting our ability to borrow additional monies in the future to fund working capital, capital expenditures, acquisitions and other general corporate purposes as and when needed, which could force us to suspend, delay or curtail business prospects, strategies or operations. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our operations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. These alternative strategies may not be affected on satisfactory terms, if at all, and they may not yield sufficient funds to make required payments on our indebtedness. If, for any reason, we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our debt, which could allow our creditors at that time to declare certain outstanding indebtedness to be due and payable or exercise other available remedies, which may in turn trigger cross acceleration or cross default rights in other agreements. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

### **Risks Related to the Acquisition of magicJack**

*Our results of operations after the acquisition of magicJack may be affected by factors different from those currently affecting the results of our operations.*

Our business and the business of magicJack differ in certain respects and, accordingly, the results of operations of the combined company and the market price of the combined company’s common shares may be affected by factors different from those currently affecting our independent results of operations.

***Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.***

Before the transactions contemplated by the Agreement and Plan of Merger with magicJack, including the magicJack Merger, may be completed, various approvals must be obtained from governmental authorities, including the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. These authorities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the magicJack Merger or of imposing additional costs or limitations on the combined company following the magicJack Merger. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the magicJack Merger that are not anticipated or cannot be met. If the consummation of the magicJack Merger is delayed, including by a delay in receipt of necessary governmental approvals, the business, financial condition and results of operations of each company may also be materially adversely affected.

***The magicJack Merger is subject to certain closing conditions that, if not satisfied or waived, will result in such magicJack Merger not being completed, which may cause the prices of our common shares to decline.***

The magicJack Merger is subject to customary conditions to closing, including the receipt of required regulatory approvals and approval of each party's shareholders of certain merger-related proposals. If any condition to the magicJack Merger is not satisfied or waived, to the extent permitted by law, such merger will not be completed. In addition, magicJack may terminate the Agreement and Plan of Merger under certain circumstances even if such agreement is approved by its shareholders. If we and magicJack do not complete the magicJack Merger, the trading price of our common shares may decline. In addition, we would not realize any of the expected benefits of having completed such merger. If the magicJack Merger is not completed, additional risks could materialize, which could materially and adversely affect our business, financial condition and results.

***We and magicJack will be subject to business uncertainties and contractual restrictions while the magicJack Merger is pending.***

Uncertainty about the effect of the magicJack Merger on employees, customers and vendors may have an adverse influence on the business, financial condition and results of operations of magicJack and us. These uncertainties may impair magicJack's or our ability to attract, retain and motivate key personnel pending the consummation of the magicJack Merger, as such personnel may experience uncertainty about their future roles following the consummation of such merger. Additionally, these uncertainties could cause self-regulatory organizations, customers, clearing brokers, suppliers, vendors and others who deal with magicJack or us to seek to change existing business relationships with magicJack, us or the combined company or fail to extend an existing relationship with magicJack, us or the combined company.

In addition, the Agreement and Plan of Merger restricts magicJack and us, as applicable, from taking certain actions without the other's party's consent while such merger is pending. These restrictions could have a material adverse effect on magicJack's or our business, financial condition and results of operations.

***The combined company may fail to realize the anticipated benefits of the magicJack Merger.***

The success of the magicJack Merger will depend on, among other things, the combined company's ability to combine the businesses of us and magicJack. If the combined company is not able to successfully achieve this objective, the anticipated benefits of the magicJack Merger may not be realized fully, or at all, or may take longer to realize than expected.

We and magicJack have operated and, until the consummation of the magicJack Merger, will continue to operate independently. It is possible that the integration process or other factors could result in the loss or departure of key employees, the disruption of our or magicJack's ongoing business, or inconsistencies in standards, controls, procedures and policies. It is also possible that clients, customers and counterparties of us or magicJack could choose to discontinue their relationships with the combined company because they prefer doing business with an independent company or for any other reason, which would adversely affect the future performance of the combined company. These transition matters could have an adverse effect on each of us and magicJack during the pre-merger period and for an undetermined amount of time after the consummation of the magicJack Merger.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**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, 2017.

| <b>Location</b>               | <b>Use</b>   |
|-------------------------------|--|
| Woodland Hills, California    | Headquarters; Accounting, Information Technology and Human Resources offices; Appraisal, Auction and Liquidation and United Online offices |
| Atlanta, Georgia              | Appraisal, Capital Markets offices   |
| Chicago, Illinois             | Appraisal, Capital Markets offices   |
| Dallas, Texas                 | Appraisal, Auction & Liquidation, Capital Markets  |
| Jupiter, Florida              | Appraisal offices  |
| Milwaukee, Wisconsin          | Appraisal offices  |
| Needham, Massachusetts        | Appraisal offices  |
| Winston-Salem, North Carolina | Appraisal offices  |
| New York, New York            | Appraisal, Capital Markets, Wealth Management, and Legal offices   |
| Toledo, Ohio                  | Appraisal offices  |
| Sydney, Australia             | Auction & Liquidation offices  |
| Arlington, Virginia           | Capital Markets offices  |
| Baltimore, Maryland           | Capital Markets offices  |
| Basel, Switzerland            | Capital Markets offices  |
| Beachwood, Ohio               | Capital Markets offices  |
| Birmingham, Michigan          | Capital Markets offices  |
| Boston, Massachusetts         | Capital Markets offices  |
| Brighton, Michigan            | Capital Markets offices  |
| Charlotte, North Carolina     | Capital Markets offices  |
| Coral Gables, Florida         | Capital Markets offices  |
| Costa Mesa, California        | Capital Markets offices  |
| Dubuque, Iowa                 | Capital Markets offices  |
| East Lansing, Michigan        | Capital Markets offices  |
| Fort Lauderdale, Florida      | Capital Markets offices  |
| Franklin, Tennessee           | Capital Markets offices  |
| Great Neck, New York          | Capital Markets offices  |

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|                           |  |
|---------------------------|--|
| Houston, Texas            | Capital Markets offices                    |
| Lafayette, Louisiana      | Capital Markets offices                    |
| Los Angeles, California   | Capital Markets offices                    |
| Memphis, Tennessee        | Capital Markets offices                    |
| Mobile, Alabama           | Capital Markets offices                    |
| Nashville, Tennessee      | Capital Markets offices                    |
| Newport Beach, CA         | Capital Markets offices                    |
| Norwalk, Connecticut      | Capital Markets, Wealth Management offices |
| Palatine, Illinois        | Capital Markets offices                    |
| Parsippany, New Jersey    | Capital Markets offices                    |
| Plymouth, Michigan        | Capital Markets offices                    |
| Richmond, Virginia        | Capital Markets offices                    |
| Rye Brook, New York       | Capital Markets offices                    |
| San Francisco, California | Capital Markets offices                    |
| St. Charles, Illinois     | Capital Markets offices                    |
| St. Louis, Missouri       | Capital Markets offices                    |
| Tulsa, Oklahoma           | Capital Markets offices                    |
| Wilton, Connecticut       | Capital Markets offices                    |
| Munich, Germany           | Retail offices                             |
| Hyderabad, India          | United Online offices                      |

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

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. In particular, the Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. The Company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. In view of the number and diversity of claims against our company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. Notwithstanding this uncertainty, the Company does not believe that the results of these claims are likely to have a material effect on its financial position or results of operations.

In 2012, Gladden v. Cumberland Trust, WSI, et al. filed a complaint in Circuit Court, Hamblen County, TN at Morristown, Case No. 12-CV-119. This complaint alleges the improper distribution and misappropriation of trust funds. The plaintiff seeks damages of no less than \$3.9 million, an accounting, and among other things, punitive damages. In October 2017, the Tennessee Supreme Court remanded the case to the Tennessee State Trial Court for determination of which claims are subject to arbitration and which are not. At the present time, the financial impact to the Company, if any, cannot be estimated.

In January 2015, Great American Group, LLC (“Great American Group”) was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding in the United States Bankruptcy Court for the District of Delaware (“Bankruptcy Court”) is pending in the bankruptcy case of the debtor and its affiliates (the “Debtor”). In the lawsuit, a former landlord of the Debtor generally alleges that Great American Group and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking approximately \$10.0 million in damages. In December 2017, the parties settled the matter and the financial impact to the Company was not material.

In May 2014, Waterford Township Police & Fire Retirement System et al. v. Regional Management Corp et al., filed a complaint in the Southern District of New York (the “Court”), against underwriters alleging violations under sections 11 and 12 of the Securities Act of 1933, as amended (the “Securities Act”). B. Riley FBR, Inc. (“B. Riley FBR”) (formerly, FBR Capital Markets & Co. (“FBRCM”)), a broker-dealer subsidiary of ours, was a co-manager of 2 offerings. On January 30, 2017, the Court denied the plaintiffs’ motion to file a first amended complaint, which would have revived claims previously dismissed by the Court on March 30, 2016. On March 1, 2017, the plaintiffs filed a notice of appeal and an opening brief on June 21, 2017. Defendant’s opposition motion was filed on September 12, 2017. Appellants filed their reply brief on October 17, 2017 and oral argument was held on November 17, 2017. On January 26, 2018, the Appellate court issued its order affirming the court’s order dismissing the plaintiff’s case and denying leave to amend. Regional Management continues to indemnify all of the underwriters, including FBRCM,



pursuant to the operative underwriting agreement.

On January 5, 2017, complaints filed in November 2015 and May 2016 naming MLV & Co. (“MLV”), a broker-dealer subsidiary of FBR, as a defendant in putative class action lawsuits alleging claims under the Securities Act, in connection with the offerings of Miller Energy Resources, Inc. (“Miller”) have been consolidated. The Master Consolidated Complaint, styled Gaynor v. Miller et al., is pending in the United States District Court for the Eastern District of Tennessee, and, like its predecessor complaints, continues to allege claims under Sections 11 and 12 of the Securities Act against nine underwriters for alleged material misrepresentations and omissions in the registration statement and prospectuses issued in connection with six offerings (February 13, 2013; May 8, 2013; June 28, 2013; September 26, 2013; October 17, 2013 (as to MLV only) and August 21, 2014) with an alleged aggregate offering price of approximately \$151.0 million. The plaintiffs seek unspecified compensatory damages and reimbursement of certain costs and expenses. In August 2017, the Court granted Defendant’s Motion to Dismiss on Section 12 claims and found that the plaintiffs had not sufficiently alleged a corrective disclosure prior to August 6, 2015, when an SEC civil action was announced. Defendants’ answer was filed on September 25, 2017. Although MLV is contractually entitled to be indemnified by Miller in connection with this lawsuit, Miller filed for bankruptcy in October 2015 and this likely will decrease or eliminate the value of the indemnity that MLV receives from Miller.

In February 2017, certain former employees filed an arbitration claim with FINRA against Wunderlich Securities, Inc. (“WSI”) alleging misrepresentations in the recruitment of claimants to join WSI. Claimants also allege that WSI failed to support their mortgage trading business resulting in the loss of opportunities during their employment with WSI. Claimants are seeking \$10.0 million in damages. WSI has counterclaimed alleging that claimants misrepresented their process for doing business, particularly their capital needs, resulting in substantial losses to WSI. WSI believes the claims are meritless and intends to vigorously defend the action. A hearing has been scheduled for March 2018.

In March 2017, United Online, Inc. received a letter from PeopleConnect, Inc. (formerly, Classmates, Inc.) (“Classmates”) regarding a notice of investigation received from the Consumer Protection Divisions of the District Attorneys’ offices of four California counties (“California DAs”). These entities suggest that Classmates may be in violation of California codes relating to unfair competition, false or deceptive advertising, and auto-renewal practices. Classmates asserts that these claims are indemnifiable claims under the purchase agreement between United Online, Inc. and the buyer of Classmates. A tolling agreement with the California DAs has been signed and informal discovery and production is in process. At the present time, the financial impact to the Company, if any, cannot be estimated.

In July 2017, an arbitration claim was filed with FINRA by Dominick & Dickerman LLC and Michael Campbell against WSI and Gary Wunderlich with respect to the acquisition by Wunderlich Investment Company, Inc. (“WIC”) (the parent corporation of WSI) of certain assets of Dominick & Dominick LLC in 2015. The Claimants allege that respondents overvalued WIC so that the purchase price paid to the Claimants in shares of WIC stock was artificially inflated. The Statement of Claim includes claims for common law fraud, negligent misrepresentation, and breach of contract. Claimants are seeking damages of approximately \$8.0 million plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

In September 2017, a statement of claim was filed in a FINRA arbitration naming FBRCM and other underwriters related to the underwriting of the now-bankrupt, Quantum Fuel Systems Technologies Worldwide, Inc. (“Quantum”). Claimants are seeking \$37.0 million in actual damages, plus \$75.0 million in punitive damages and attorney’s fees. On October 24, 2017, we joined in a motion with the other underwriters requesting that the claim be dismissed on the grounds that it is improper under FINRA Rules 12204 and 122205 which prohibit class actions and derivative claims, respectively. On December 1, 2017, the claims were dismissed by FINRA.

#### **Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

#### **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 NASDAQ Global Market under the symbol: “RILY”. From July 16, 2015 to November 15, 2016, our common stock was traded on the NASDAQ Capital Market 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 NASDAQ Capital Market or NASDAQ Global Market (as applicable) on a quarterly basis for the years ended

December 31, 2016 and 2017.

|                                  | High     | Low      |
|----------------------------------|----------|----------|
| <u>2016</u>                      |          |          |
| Quarter ended March 31, 2016     | \$ 10.50 | \$ 9.05  |
| Quarter ended June 30, 2016      | 11.72    | 9.50     |
| Quarter ended September 30, 2016 | 13.36    | 8.68     |
| Quarter ended December 31, 2016  | 19.25    | 12.20    |
| <u>2017</u>                      |          |          |
| Quarter ended March 31, 2017     | \$ 21.30 | \$ 14.15 |
| Quarter ended June 30, 2017      | 18.60    | 13.70    |
| Quarter ended September 30, 2017 | 19.95    | 15.30    |
| Quarter ended December 31, 2017  | 19.20    | 15.90    |

As of March 9, 2018, there were approximately 187 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 August 4, 2016, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about September 8, 2016 to stockholders of record on August 22, 2016. On November 13, 2016, our Board of Directors approved a regular dividend of \$0.08 per share and a special dividend of \$0.17 per share, which was paid on or about December 14, 2016 to stockholders of record on November 29, 2016. On February 20, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.18 per share, which were paid on or about March 13, 2017 to stockholders of record on March 6, 2017. On May 10, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which were paid on or about May 31, 2017 to stockholders of record on May 23, 2017. On August 7, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.05 per share, which were paid on or about August 29, 2017 to stockholders of record on August 21, 2017. On November 8, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.04 per share, which were paid on or about November 30, 2017 to stockholders of record on November 22, 2017. On March 7, 2018, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which will be paid on or about April 3, 2018 to stockholders of record on March 20, 2018. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, 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.

## ***Share Performance Graph***

The following graph compares the cumulative total shareholder return on our common share with the cumulative total return on the Russell 2000 Index and a peer group index for the period from December 31, 2012 to December 31, 2017. The graph and table below assume that \$100 was invested on the starting date and dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance and should not be considered an indication of future performance.

## **B. Riley Financial, Inc. Common Stock Price Five Year Comparison**

| As of December 31,       | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|--------------------------|-------|-------|-------|-------|-------|-------|
| B. Riley Financial, Inc. | \$100 | \$90  | \$161 | \$172 | \$332 | \$347 |
| Russell 2000             | \$100 | \$137 | \$142 | \$134 | \$160 | \$181 |
| Industry Peer Group      | \$100 | \$147 | \$161 | \$129 | \$148 | \$169 |

Our peer group index includes the following companies: Cowen Group, Inc.; JMP Group LLC; Oppenheimer Holdings Inc.; and Stifel Financial Corp. These companies were selected because their businesses and operations were comparable to ours throughout or for some portion of the five-year period presented in the chart above.

The information provided above under the heading “Share Performance Graph” shall not be considered “filed” for purposes of Section 18 of the Exchange Act or incorporated by reference in any filing under the Securities Act of 1933, as amended or the Exchange Act.

#### **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, 2017, and is derived from our Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2017 and 2016, and for each of the years in the three-year period ended December 31, 2017, 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 data)**

|  | Year Ended December 31, |            |            |           |           |
|--|-------------------------|------------|------------|-----------|-----------|
|  | 2017                    | 2016       | 2015       | 2014      | 2013      |
| <b>Revenues:</b>   |                         |            |            |           |           |
| Services and fees  | \$304,841               | \$164,235  | \$101,929  | \$67,257  | \$59,967  |
| Interest income - Securities lending                       | 17,028                  | —          | —          | —         | —         |
| Sale of goods  | 307                     | 26,116     | 10,596     | 9,859     | 16,165    |
| Total revenues   | 322,176                 | 190,351    | 112,525    | 77,116    | 76,132    |
| <b>Operating expenses:</b>                                 |                         |            |            |           |           |
| Direct cost of services                                    | 55,501                  | 40,857     | 29,049     | 23,466    | 24,146    |
| Cost of goods sold   | 398                     | 14,755     | 3,072      | 14,080    | 11,506    |
| Selling, general and administrative                        | 213,008                 | 82,127     | 58,322     | 44,453    | 36,382    |
| Restructuring charge                                       | 12,374                  | 3,887      | —          | 2,548     | —         |
| Interest expense - Securities lending                      | 12,051                  | —          | —          | —         | —         |
| Total operating expenses                                   | 293,332                 | 141,626    | 90,443     | 84,547    | 72,034    |
| Operating income (loss)                                    | 28,844                  | 48,725     | 22,082     | (7,431)   | 4,098     |
| <b>Other income (expense):</b>                             |                         |            |            |           |           |
| Interest income  | 420                     | 318        | 17         | 12        | 26        |
| Loss from equity investments                               | (437)                   | —          | —          | —         | (177)     |
| Interest expense   | (8,382)                 | (1,996)    | (834)      | (1,262)   | (2,667)   |
| Income (loss) from operations before income taxes          | 20,445                  | 47,047     | 21,265     | (8,681)   | 1,280     |
| (Provision for) benefit from income taxes                  | (8,510)                 | (14,321)   | (7,688)    | 2,886     | (704)     |
| Net income (loss)  | 11,935                  | 32,726     | 13,577     | (5,795)   | 576       |
| Net income (loss) attributable to noncontrolling interests | 379                     | 11,200     | 1,772      | 6         | (482)     |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$11,556                | \$21,526   | \$11,805   | \$(5,801) | \$1,058   |
| <b>Basic earnings (loss) per share</b>                     |                         |            |            |           |           |
| Basic earnings (loss) per share                            | \$0.50                  | \$1.19     | \$0.73     | \$(0.60)  | \$0.74    |
| <b>Diluted earnings (loss) per share</b>                   |                         |            |            |           |           |
| Diluted earnings (loss) per share                          | \$0.48                  | \$1.17     | \$0.73     | \$(0.60)  | \$0.71    |
| <b>Cash dividends per share</b>                            |                         |            |            |           |           |
| Cash dividends per share                                   | \$0.67                  | \$0.28     | \$0.32     | \$0.03    | \$—       |
| <b>Weighted average basic shares outstanding</b>           |                         |            |            |           |           |
| Weighted average basic shares outstanding                  | 23,181,388              | 18,106,621 | 16,221,040 | 9,612,154 | 1,434,107 |
| <b>Weighted average diluted shares outstanding</b>         |                         |            |            |           |           |
| Weighted average diluted shares outstanding                | 24,290,904              | 18,391,852 | 16,265,915 | 9,612,154 | 1,495,328 |

**Consolidated Balance Sheet Data:****(Dollars in thousands)**

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|   | Year Ended December 31, |            |           |           |           |
|---|-------------------------|------------|-----------|-----------|-----------|
|   | 2017                    | 2016       | 2015      | 2014      | 2013      |
| Cash and cash equivalents                             | \$ 132,823              | \$ 112,105 | \$ 30,012 | \$ 21,600 | \$ 18,867 |
| Restricted cash                                       | 19,711                  | 3,294      | 51        | 7,657     | 325       |
| Securities and other investments owned, at fair value | 145,360                 | 16,579     | 25,543    | 17,955    | —         |
| Total assets  | 1,386,904               | 264,618    | 132,420   | 138,990   | 73,677    |
| Total liabilities                                     | 1,121,058               | 114,226    | 23,100    | 41,911    | 77,828    |
| Total equity (deficit)                                | 265,846                 | 150,392    | 109,320   | 97,079    | (4,151 )  |

## **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; our ability to meet future capital requirements ; our ability to realize the benefits of our completed and proposed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; the possibility that our proposed acquisition of magicJack VocalTec Ltd. (“magicJack”) does not close when expected or at all; our ability to promptly and effectively integrate our business with that of magicJack if such transaction closes; the reaction to the magicJack acquisition of our and magicJack’s customers, employees and counterparties; and the diversion of management time on acquisition-related*



issues.

*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**

B. Riley Financial, Inc. and its subsidiaries (NASDAQ: RILY) provide collaborative financial services and solutions through several subsidiaries, including:

B. Riley & Co., LLC (“BRC”), FBR Capital Markets & Co. (“FBR”) and Wunderlich Securities, Inc., are mid-sized, full service investment banks providing financial advisory, corporate finance, research, securities lending and sales & trading services to corporate, institutional and high net worth individual clients. Wunderlich also provides wealth management services to high net worth individuals and families;

B. Riley Capital Management, LLC, a Securities and Exchange Commission (“SEC”) registered investment advisor, which includes:

B. Riley Asset Management, an advisor to certain private funds and to institutional and high net worth investors;

B. Riley Wealth Management (formerly MK Capital Advisors), a multi-family office practice and wealth management firm focused on the needs of ultra-high net worth individuals and families; and

Great American Capital Partners, LLC (“GACP”), the general partner of a private fund, GACP I, L.P. a direct lending fund that provides senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies;

Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients; and

Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients.

We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. On July 1, 2016, we acquired United Online, Inc. (“UOL”) as part of our principal investment strategy.

UOL is a communications company that offers subscription services and products, consisting of Internet access services and devices under the NetZero and Juno brands primarily sold in the United States.

We are headquartered in Los Angeles with offices in major financial markets throughout the United States and Europe.

For financial reporting purposes we classify our businesses into four segments: (i) capital markets, (ii) auction and liquidation, (iii) valuation and appraisal; and (iv) principal investments – United Online.

Capital Markets Segment. Our capital markets segment provides a full array of investment banking, corporate finance, research, securities lending, wealth management, sales and trading services to corporate, institutional and high net worth clients. Our corporate finance and investment banking services include merger and acquisitions as well as restructuring advisory services to public and private companies, initial and secondary public offerings, and institutional private placements. In addition, we trade equity securities as a principal for our account, including investments in funds managed by our subsidiaries. Our capital markets segment also includes our asset management businesses that manage various private and public funds for institutional and individual investors.

Auction and Liquidation Segment. Our auction and liquidation segment utilizes our significant industry experience, a 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. Furthermore, our scale and pool of resources allow us to offer our services across North American as well as parts of Europe, Asia and Australia. Our auction and liquidation segment operates through two main divisions, retail store liquidations and wholesale and industrial assets dispositions. Our wholesale and industrial assets dispositions division operates through limited liability companies that are controlled by us.

**Valuation and Appraisal Segment.** Our valuation and appraisal segment provides valuation and appraisal services to financial institutions, lenders, private equity firms 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 segment operates through limited liability companies that are majority owned by us.

**Principal Investments – United Online Segment.** Our principal investments - United Online segment consists of businesses which have been acquired primarily for attractive investment return characteristics. Currently, this segment includes UOL, a company that offers consumer subscription services consisting of Internet access under the NetZero and Juno brands. Internet access includes paid dial-up, mobile broadband and DSL subscription services. We also offer email, Internet security, web hosting services, and other services.

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. During the years ended December 31, 2017, 2016 and 2015, revenues from our auction and liquidation segment were 14.7%, 46.0% and 41.1% 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 to one retailer represented 13.5% of our total revenues during the year ended December 31, 2016. In addition, revenues from investment banking transactions in our capital markets segment will vary from quarter to quarter and have a material impact on our total revenues and operating profits.

For information about segments and geographic areas, please refer to Note 20 to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

### ***Recent Developments***

On November 9, 2017, the Company entered into an Agreement and Plan of Merger with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the Company (“Merger Sub”), and magicJack VocalTec Ltd., an Israeli corporation (“magicJack”), pursuant to which Merger Sub will merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Subject to the terms and conditions of the Agreement and Plan of Merger, each outstanding share of magicJack will be converted into the right to receive \$8.71 in cash without interest, representing approximately \$143,500 in aggregate merger consideration. The closing of the transaction is subject to the receipt of certain regulatory approvals, the approval of the magicJack shareholder’s and the satisfaction of other closing conditions. It is anticipated that the acquisition of magicJack will close in the first half of 2018.

On February 17, 2017, we entered into an Agreement and Plan of Merger (the “FBR Merger Agreement”) with FBR & Co. (“FBR”), pursuant to which FBR was to merge with and into the Company (or a subsidiary of the Company), with the Company (or its subsidiary) as the surviving corporation (the “Merger”). On May 1, 2017, the Company and FBR filed a registration statement for the planned Merger. The shareholders of the Company and FBR approved the acquisition on June 1, 2017, customary closing conditions were satisfied and the acquisition was completed on June 1, 2017. Subject to the terms and conditions of the FBR Merger Agreement, each outstanding share of FBR common stock (“FBR Common Stock”) was converted into the right to receive 0.671 of a share of our common stock. The total acquisition consideration for FBR was estimated to be \$73.5 million, which includes the issuance of approximately 4,831,633 shares of our common stock with an estimated fair value of \$71.0 million (based on the closing price of our common stock on June 1, 2017) and restricted stock awards with a fair value of \$2.5 million attributable to the service period prior to June 1, 2017. We believe that the acquisition of FBR will allow us to benefit from investment banking, corporate finance, securities lending, research, and sales and trading services provided by FBR and planned synergies from the elimination of duplicate corporate overhead and management functions with us.

On May 17, 2017, we entered into a Merger Agreement with Wunderlich Investment Company, Inc., a Delaware corporation (“Wunderlich”), and Stephen Bonnema, in his capacity as the Stockholder Representative (the “Stockholder Representative”), collectively (the “Wunderlich Merger Agreement”). Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. We also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017. The Registration Rights Agreement provides the Wunderlich shareholder signatories with the right to notice of and, subject to certain conditions, the right to register shares of our common stock in certain future registered offerings of shares of our common stock. In connection with the acquisition Wunderlich on July 3, 2017, the total consideration of \$65.1 million included \$29.7 million of cash and the issuance of approximately 1,974,812 shares of the Company’s common stock with an estimated fair value of \$31.5 million and 821,816 newly issued common stock warrants with an estimated fair value of \$3.9 million.

In connection with terms of the Wunderlich Merger Agreement, on July 5, 2017 the number of directors comprising our full Board of Directors was increased by one, with Gary K. Wunderlich, Jr., Chief Executive Officer of Wunderlich, being appointed to fill the new seat in accordance with the terms of his employment agreement. Concurrently with the appointment of Mr. Wunderlich, the number of directors comprising our full Board of Directors was again increased by one, with Michael J. Sheldon appointed as an independent director to fill the new seat.

During 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisition of FBR and Wunderlich which included a reduction in force for some of the corporate executives of FBR and Wunderlich and a restructuring to integrate FBR and Wunderlich’s operations with our operations. These initiatives resulted in restructuring charges of \$11.7 million in the year ended December 31, 2017. Restructuring charges included \$3.3 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of FBR and Wunderlich and \$5.0 million of severance, accelerated vesting of stock awards to employees and \$3.4 million of lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.



*Results of Operations*

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

***Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*****Consolidated Statements of Income**

(Dollars in thousands)

|   | <b>Year Ended<br/>December 31,<br/>2017</b> |          | <b>Year Ended<br/>December 31, 2016</b> |          |
|---|---|----------|---|----------|
|   | <b>Amount</b>                               | <b>%</b> | <b>Amount</b>                           | <b>%</b> |
| <b>Revenues:</b>                                    |   |          |   |          |
| Services and fees                                   | \$304,841                                   | 94.6 %   | \$164,235                               | 86.3 %   |
| Interest income - Securities lending                | 17,028                                      | 5.3 %    | —                                       | 0.0 %    |
| Sale of goods                                       | 307   | 0.1 %    | 26,116                                  | 13.7 %   |
| Total revenues                                      | 322,176                                     | 100.0 %  | 190,351                                 | 100.0 %  |
| Operating expenses:                                 |   |          |   |          |
| Direct cost of services                             | 55,501                                      | 17.2 %   | 40,857                                  | 21.5 %   |
| Cost of goods sold                                  | 398   | 0.1 %    | 14,755                                  | 7.8 %    |
| Selling, general and administrative expenses        | 213,008                                     | 66.1 %   | 82,127                                  | 43.1 %   |
| Restructuring charge                                | 12,374                                      | 3.8 %    | 3,887                                   | 2.0 %    |
| Interest expense - Securities lending               | 12,051                                      | 3.7 %    | —                                       | 0.0 %    |
| Total operating expenses                            | 293,332                                     | 91.0 %   | 141,626                                 | 74.4 %   |
| Operating income                                    | 28,844                                      | 9.0 %    | 48,725                                  | 25.6 %   |
| Other income (expense):                             |   |          |   |          |
| Interest income                                     | 420   | 0.1 %    | 318                                     | 0.2 %    |
| Loss on equity investment                           | (437 )                                      | (0.1 %)  | —                                       | 0.0 %    |
| Interest expense                                    | (8,382 )                                    | (2.6 %)  | (1,996 )                                | (1.0 %)  |
| Income before income taxes                          | 20,445                                      | 6.4 %    | 47,047                                  | 24.7 %   |
| Provision for income taxes                          | (8,510 )                                    | (2.6 %)  | (14,321 )                               | (7.5 %)  |
| Net income  | 11,935                                      | 3.7 %    | 32,726                                  | 17.2 %   |
| Net income attributable to noncontrolling interests | 379   | 0.1 %    | 11,200                                  | 5.9 %    |
| Net income attributable to B. Riley Financial, Inc. | \$11,556                                    | 3.6 %    | \$21,526                                | 11.3 %   |



## Revenues

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

|   | Year Ended<br>December 31,<br>2017 |        | Year Ended<br>December 31,<br>2016 |        | Change    |          |
|---|------------------------------------|--------|------------------------------------|--------|-----------|----------|
|   | Amount                             | %      | Amount                             | %      | Amount    | %        |
| Revenues - Services and fees:                 |                                    |        |                                    |        |           |          |
| Capital Markets segment                       | \$172,695                          | 53.6 % | \$39,335                           | 20.7 % | \$133,360 | 339.0 %  |
| Auction and Liquidation segment               | 47,376                             | 14.7 % | 61,891                             | 32.5 % | (14,515 ) | (23.5 %) |
| Valuation and Appraisal segment               | 33,331                             | 10.3 % | 31,749                             | 16.7 % | 1,582     | 5.0 %    |
| Principal Investments - United Online segment | 51,439                             | 16.0 % | 31,260                             | 16.4 % | 20,179    | 64.6 %   |
| Subtotal                                      | 304,841                            | 94.6 % | 164,235                            | 86.3 % | 140,606   | 85.6 %   |
| Revenues - Sale of goods                      |                                    |        |                                    |        |           |          |
| Auction and Liquidation segment               | 3                                  | 0.0 %  | 25,855                             | 13.6 % | (25,852 ) | (100.0%) |
| Principal Investments - United Online segment | 304                                | 0.1 %  | 261                                | 0.1 %  | 43        | 16.5 %   |
| Subtotal                                      | 307                                | 0.1 %  | 26,116                             | 13.7 % | (25,809 ) | (98.8 %) |
| Interest income - Securities lending:         |                                    |        |                                    |        |           |          |
| Capital Markets segment                       | 17,028                             | 5.3 %  | —                                  | 0.0 %  | 17,028    | n/m      |
| Total revenues                                | \$322,176                          | 100.0% | \$190,351                          | 100.0% | \$131,825 | 69.3 %   |

Total revenues increased \$131.8 million to \$322.2 million during the year ended December 31, 2017 from \$190.4 million during the year ended December 31, 2016. The increase in revenues during the year ended December 31, 2017 was primarily due to an increase in revenues from services and fees of \$140.6 million and an increase in interest income – securities lending of \$17.0 million, offset by a decrease in revenues from the sale of goods of \$25.8 million. The increase in revenues from services and fees of \$140.6 million in 2017 was primarily due to an increase in revenues of (a) \$133.4 million in the capital markets segment, (b) \$20.2 million in the principal investments - United Online segment from the acquisition of UOL on July 1, 2016, and (c) \$1.6 million in the valuation and appraisal segment, offset by a \$14.5 million decrease in the auction and liquidation segment. The increase of \$17.0 million in interest income – securities lending was a result of the acquisition of FBR on June 1, 2017. The decrease in revenues from sale of goods of \$25.8 million was primarily due to the sale of retail goods that we acquired title to in September 2016 from the bankruptcy trustee of MS Mode, a retailer of women’s apparel that operates 130 retail locations throughout the Netherlands.

Revenues from services and fees in the capital markets segment increased \$133.4 million, or 339% to \$172.7 million during the year ended December 31, 2017 from \$39.3 million during the year ended December 31, 2016. The increase in revenues was due to an increase in revenues of \$66.1 million from investment banking, \$33.1 million from wealth



management, \$29.2 million from sales commissions, fees and other, and \$5.0 million from trading income. The increase in revenues from investment banking fees was primarily due to an increase in the number of investment banking transactions where we acted as an advisor in 2017 as compared to the same period in 2016. Of the \$66.1 million increase from investment banking fees, \$50.9 million was due to operations of FBR that we acquired on June 1, 2017. The increase in revenues from wealth management services of \$33.1 million was \$33.0 million due to operations of Wunderlich that we acquired on July 3, 2017. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage and includes \$23.0 million of revenues from the acquisitions of FBR and Wunderlich. The increase of \$5.0 million in trading income in 2017 was primarily due to an increase in income we earned from trading activities in our propriety trading account. Of the \$5.0 million increase in trading income, \$2.6 million was due to the acquisition of FBR.

Revenues from services and fees in the auction and liquidation segment decreased \$14.5 million, or 23.5%, to \$47.4 million during the year ended December 31, 2017 from \$61.9 million during the year ended December 31, 2016. The decrease in revenues of \$14.5 million was primarily due to a decrease in revenues of \$11.2 million from services and fees from retail liquidation engagements, and \$3.3 million decrease in revenues in our wholesale and industrial auction division. The decrease in revenues from services and fees was primarily due to the completion of two large retail liquidation engagements in 2016 where we guaranteed the recovery value of inventory and generated more revenues as compared to the larger mix of fee and commission type of retail liquidation engagements we completed in 2017. The decrease in revenues from services and fees in our wholesale and industrial division was primarily due to a decrease in the number of wholesale and industrial auction engagements in 2017 as compared to the same period in 2016.

Revenues from services and fees in the valuation and appraisal segment increased \$1.6 million, or 5%, to \$33.3 million during the year ended December 31, 2017 from \$31.7 million during the year ended December 31, 2016. The increase in revenues was primarily due to increases of (a) \$0.9 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$0.7 million related to appraisal engagements where we perform valuations of intellectual property and business valuations.

Revenues from services and fees in the principal investments - United Online segment increased \$20.2 million to \$51.4 million during the year ended December 31, 2017 from \$31.3 million during the year ended December 31, 2016. The increase in revenues was the result of the acquisition of UOL on July 1, 2016. Services revenues primarily from customer paid accounts related to our Internet access and related subscription services were \$39.2 million during the year ended December 31, 2017 and \$22.4 million during the year ended December 31, 2016. Advertising revenues from Internet display advertising and search related to our email and Internet access services were \$12.2 million during the year ended December 31, 2017 and \$8.9 million during the year ended December 31, 2016. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments - United Online segment to continue to decline year over year.

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

|                                   | Year Ended December 31, 2017                            |          |         | Year Ended December 31, 2016                            |        |          |
|-----------------------------------|---|----------|---------|---|--------|----------|
|                                   | <b>Principal Auction and Liquidation United Segment</b> |          | Total   | <b>Principal Auction and Liquidation United Segment</b> |        | Total    |
| Revenues - Sale of Goods          | \$3   | \$ 304   | \$307   | \$25,855  | \$ 261 | \$26,116 |
| Cost of goods sold                | 2   | 396      | 398     | 14,502  | 253    | 14,755   |
| Gross margin on services and fees | \$1   | \$ (92 ) | \$(91 ) | \$11,353  | \$ 8   | \$11,361 |
| Gross margin percentage           | 33.3%   | (30.3 %) | (29.6%) | 43.9 %  | 3.1 %  | 43.5 %   |

Revenues from the sale of goods decreased \$25.8 million, to \$0.3 million during the year ended December 31, 2017 from \$26.1 during the year ended December 31, 2016. Revenues from the sale of goods in 2016 was primarily due to the sale of retail goods related to the retail liquidation engagement of MS Mode in Europe where we took title to the goods and operated the MS Mode stores during the liquidation period. In the principal investments - United Online segment, revenues from the sale of goods was primarily due to the sale of mobile broadband devices that are sold in connection with the mobile broadband services we offer our customers. The increase in revenues were the result of the acquisition of UOL on July 1, 2016. Cost of goods sold in 2017 was \$0.4 million resulting in a gross margin of (\$0.09) million or (29.6%) during the year ended December 31, 2017. Cost of goods sold in 2016 was \$14.8 million resulting in a gross margin of \$11.4 million or 43.5% during the year ended December 31, 2016.

### 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, 2017 and 2016 are as follows:

|                                   | Year Ended December 31, 2017    |                                     |   |          | Year Ended December 31, 2016    |                                     |   |          |
|-----------------------------------|---------------------------------|-------------------------------------|---|----------|---------------------------------|-------------------------------------|---|----------|
|                                   | Auction and Liquidation Segment |                                     | Principal Investments - United Online Segment |          | Auction and Liquidation Segment |                                     | Principal Investments - United Online Segment |          |
|                                   | Valuation and Appraisal Segment | Investments - United Online Segment | Total   |          | Valuation and Appraisal Segment | Investments - United Online Segment | Total   |          |
| Revenues - Services and fees      | \$47,376                        | \$ 33,331                           | \$ 51,439                                     |          | \$61,891                        | \$ 31,749                           | \$ 31,260                                     |          |
| Direct cost of services           | 27,841                          | 14,876                              | 12,784  | \$55,501 | 17,787                          | 13,983                              | 9,087   | \$40,857 |
| Gross margin on services and fees | \$19,535                        | \$ 18,455                           | \$ 38,655                                     |          | \$44,104                        | \$ 17,766                           | \$ 22,173                                     |          |
| Gross margin percentage           | 41.2 %                          | 55.4 %                              | 75.1 %  |          | 71.3 %                          | 56.0 %                              | 70.9 %  |          |

Total direct costs increased \$14.6 million, to \$55.5 million during the year ended December 31, 2017 from \$40.9 million during the year ended December 31, 2016. Direct costs of services increased by (a) \$10.1 million in the auction and liquidation segment, (b) \$0.9 million in the valuation and appraisal segment, and (c) \$3.7 million in the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016. The increase in direct costs in the auction and liquidation segment was primarily due to the impact of completing more fee and commission type of retail liquidation engagements as compared to 2016 when we completed two large retail liquidation agreements where we guaranteed the recovery value of inventory. The increase in direct costs of services in the valuation and appraisal segment was primarily due to an increase in payroll and related expenses due to an increase headcount 2017 as compared to the same period in 2016.

### ***Auction and Liquidation***

Gross margin in the auction and liquidation segment for services and fees decreased to 41.2% of revenues during the year ended December 31, 2017, as compared to 71.3% of revenues during the year ended December 31, 2016. The decrease in gross margin during the year ended December 31, 2017 was primarily due to a change in the mix of fee type engagements in 2017 as compared to the same period in 2016. During 2017, we completed a larger mix of fee and commission type retail liquidation engagements where our margins are generally less than the comparable margins we generated in 2016 when we completed two larger retail liquidation engagements where we guaranteed the

recovery value of inventory.

***Valuation and Appraisal***

Gross margins in the valuation and appraisal segment decreased to 55.4% of revenues during the year ended December 31, 2017 as compared to 56.0% of revenues during the year ended December 31, 2016. The decrease in gross margin is primarily due to an increase in payroll and related expenses from an increase in headcount during 2017 as compared to same period in 2016.

***Principal Investments - United Online***

Gross margins in the principal investments-United Online segment increased to 75.1% of revenues during the year ended December 31, 2017 as compared to 70.9% of revenues during the year ended December 31, 2016. Direct costs in the principal investments - United Online segment includes telecommunications and data center costs, personnel and overhead-related costs associated with operating our networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billings and processing of customer credit cards and associated bank fees. The increase in gross margin is primarily due to a decrease in costs related to providing customer support and lower personnel costs.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the years ended December 31, 2017 and 2016 were comprised of the following:

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

(Dollars in thousands)

|   | Year Ended   |        | Year Ended   |        | Change    |          |
|---|--------------|--------|--------------|--------|-----------|----------|
|   | December 31, |        | December 31, |        |           |          |
|   | 2017         |        | 2016         |        |           |          |
|   | Amount       | %      | Amount       | %      | Amount    | %        |
| Capital Markets segment                       | \$153,886    | 72.3 % | \$33,244     | 40.5 % | \$120,642 | 362.9 %  |
| Auction and Liquidation segment               | 8,350        | 3.9 %  | 14,357       | 17.5 % | (6,007 )  | (41.8 %) |
| Valuation and Appraisal segment               | 8,742        | 4.1 %  | 8,885        | 10.8 % | (143 )    | (1.6 %)  |
| Principal Investments - United Online segment | 18,337       | 8.6 %  | 9,492        | 11.5 % | 8,845     | 93.2 %   |
| Corporate and Other segment                   | 23,693       | 11.1 % | 16,149       | 19.7 % | 7,544     | 46.7 %   |

|  |           |        |          |        |           |        |
|--|-----------|--------|----------|--------|-----------|--------|
| Total selling, general & administrative expenses | \$213,008 | 100.0% | \$82,127 | 100.0% | \$130,881 | 159.4% |
|--|-----------|--------|----------|--------|-----------|--------|

Total selling, general and administrative expenses increased \$130.9 million, or 159.4%, to \$213.0 million during the year ended December 31, 2017 from \$82.1 million for the year ended December 31, 2016. The increase in expenses was primarily due to an increase in selling, general and administrative expenses of (a) \$120.6 million in the capital markets segment, (b) \$8.8 million in the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, and (c) \$7.5 million in corporate and other, offset by a decrease in expenses of \$6.0 million in the auction and liquidation segment and \$0.1 million in the valuation and appraisal segment.

### ***Capital Markets***

Selling, general and administrative expenses in the capital markets segment increased by \$120.6 million, or 362.9% to \$153.9 million during the year ended December 31, 2017 from \$33.2 million during the year ended December 31, 2016. The increase in expenses of \$120.6 million was primarily due to an increase in operating expenses of \$107.8 million from the acquisitions of FBR and Wunderlich in 2017. Of the \$107.8 million increase in selling and general and administrative expenses from the acquisitions of FBR and Wunderlich, \$69.4 million was payroll and related expenses. Selling, general and administrative expenses also increased primarily due to increase in payroll and related expenses of \$11.1 million related to increases in incentive compensation as a result of the increased revenues from investment banking fees in 2017 as compared to the same period in 2016.

### ***Auction and Liquidation***

Selling, general and administrative expenses in the auction and liquidation segment decreased \$6.0 million, or 41.8%, to \$8.4 million during the year ended December 31, 2017 from \$14.4 million for the year ended December 31, 2016. The decrease in expenses was primarily due to (a) a decrease in payroll and incentive compensation of \$2.1 million, (b) a decrease in legal and professional fees of \$2.8 million, and (c) a decrease in other expenses of \$1.1 million in 2017 as compared to the same period in 2016.

### ***Valuation and Appraisal***

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$0.1 million, or 1.6%, to \$8.7 million during year ended December 31, 2017 from \$8.9 million for the year ended December 31, 2016. The decrease of approximately \$0.1 million was primarily due to a decrease in general other operating expenses in 2017 as compared to the same period in 2016.

### ***Principal Investments - United Online***

Selling, general and administrative expenses in the principal investments - United Online segment increased \$8.8 million, or 93.2%, to \$18.3 million for the year ended December 31, 2017 from \$9.5 million for the year ended December 31, 2016 as a result of the acquisition of UOL on July 1, 2016. For the year ended December 31, 2017, these expenses include \$4.8 million of technology and development expenses, \$1.2 million of sales and marketing expenses, \$6.9 million of general and administrative expenses and \$5.4 million of amortization of intangibles. For the year ended December 31, 2016, these expenses include \$2.4 million of technology and development expenses, \$0.8 million of sales and marketing expenses, \$3.5 million of general and administrative expenses and \$2.8 million of amortization of intangibles. Technology and development expenses include expenses for product development, maintenance of existing software, technology and websites. Sales and marketing expenses include expenses associated personnel and overhead-related expenses for marketing, customer service, and advertising sales personnel to acquire and retain paid subscribers. Expenses associated with generating advertising revenues include sales commissions and personnel-related expenses. General and administrative expenses consist of personnel-related expenses for management in the principal investments - United Online segment, facilities, internal customer support personnel, personnel associated with operating our corporate systems and insurance recoveries. Amortization of intangibles includes amortization expense related to customer lists, advertising relationships, domain names and internally developed software.

### ***Corporate and Other***

Selling, general and administrative expenses for corporate and other increased approximately \$7.5 million, or 46.7%, to \$23.7 million during the year ended December 31, 2017 from \$16.1 million for the year ended December 31, 2016. The increase was primarily due to an increase in (a) fair value adjustment of \$8.2 million in connection with the mandatorily redeemable noncontrolling interests, (b) payroll and related expenses of \$3.0 million and (c) transactions costs of \$2.5 million incurred for professional fees that primarily related to the acquisition of Wunderlich, FBR and Dialectic in 2017. These increases in corporate overhead were offset by an insurance recovery in the amount of \$6.0 million related to key man life insurance on one of our executives in our appraisal segment.

**Restructuring Charge.** During the year ended December 31, 2017, we incurred restructuring charge of \$12.4 million compared to restructuring charge of \$3.9 million during the year ended December 31, 2016.

During the year ended December 31, 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of Wunderlich and FBR which included a reduction in force for some of the corporate executives of Wunderlich and FBR and a restructuring to integrate Wunderlich and FBR's operations with our operations. These initiatives resulted in a restructuring charge of \$11.7 million during the year ended December 31, 2017. The restructuring charges included \$3.3 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of Wunderlich and FBR and \$5.0 million of severance, accelerated vesting of stock awards to employees and \$3.4 million of lease loss accruals for the planned consolidation of office space related to operations. The restructuring charge in 2017 also included employee termination costs of \$0.7 million related to a reduction in personnel in the principal investments – United Online segment of our operations.

The restructuring charge in 2016 of \$3.9 million included \$3.5 million of employee termination costs related to a reduction in personnel in the corporate offices of UOL after our acquisition on July 1, 2016 and \$0.4 million of charges related to combining our corporate office location with the offices of UOL.

**Other Income (Expense).** Other income included interest income of \$0.4 million during the year ended December 31, 2017 as compared to \$0.3 million during the year ended December 31, 2016. Interest expense was \$8.4 million during the year ended December 31, 2017 as compared to \$2.0 million during the year ended December 31, 2016. The increase in interest expense during the year ended December 31, 2017 as compared to 2016 was primarily due to (a) \$5.7 million increase from the issuances of senior notes, (b) \$0.3 million incurred in 2017 from the UOL credit agreement, and (c) \$0.2 million incurred in 2017 from other notes payable. Other expense in year ended December 31, 2017 included \$0.4 million loss on equity investment.

**Income Before Income Taxes.** Income before income taxes was \$20.4 million during the year ended December 31, 2017, a decrease of \$26.6 million, from \$47.0 million during the year ended December 31, 2016. The decrease in income before income taxes was primarily due to (a) an increase in corporate and other expenses of \$10.9 million, which includes an increase in restructuring charges of \$3.4 million, (b) a decrease in operating income of \$29.9 million in our auction and liquidation segment, (c) an increase in interest expense of \$6.4 million and (d) loss on equity investment of \$0.4 million, offset by (a) an increase in operating income of \$10.3 million in our principal investments – United Online segment as a result of the acquisition of UOL on July 1, 2016, (b) an increase in operating income of \$9.8 million in our capital markets segment, and (c) an increase in operating income of \$0.8 million in our valuation and appraisal segment.



**Provision for Income Taxes.** Provision for income tax was \$8.5 million during the year ended December 31, 2017, a decrease of \$5.8 million, from \$14.3 million during the year ended December 31, 2016. The effective income tax rate was 41.6% during the year ended December 31, 2017 and 30.4% during the year ended December 31, 2016. The provision for income taxes during the year ended December 31, 2017 included (a) tax expense of \$13.1 million primarily related to revaluation of deferred tax assets at 21.0% as a result of the U.S. Tax Cuts and Jobs Act enacted on December 22, 2017; and (b) a tax benefit of \$8.4 million related to our election to treat the acquisition of UOL as a taxable business combination for income tax purposes in accordance with Internal Revenue Code Section 338(g) as more fully discussed in Note 13 in the consolidated financial statements. The tax provision during the year ended December 31, 2017 also includes a tax benefit due to a non-taxable insurance recovery in the amount of \$6.0 million that was received in the second quarter of 2017.

**Net Income 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 which we have a 50% membership interest that we do not own. The net income attributable to noncontrolling interests was \$0.4 million during the year ended December 31, 2017 compared to net income attributable to noncontrolling interests of \$11.2 million during the year ended December 31, 2016.

**Net Income Attributable to the Company.** Net income attributable to the Company for the year ended December 31, 2017 was \$11.6 million, a decrease of approximately \$10.0 million, from \$21.5 million during the year ended December 31, 2016. The decrease in net income during the year ended December 31, 2017 as compared to the same period in 2016 was primarily due to (a) an decrease in operating income in the auction and liquidation segment of \$29.9 million, (b) increase in corporate and other expenses of \$10.9 million, and (c) increase in interest expense of \$6.4 million, offset by (a) an increase in operating income in principal investments – United Online segment the \$10.3 million, (b) an increase in operating income in the capital markets segment of \$9.8 million, (c) increase in operating income of \$0.8 million in the valuation and appraisal segment, (d) decrease in net income attributable to noncontrolling interests of \$10.8 million, and (e) a decrease in provision for income taxes of \$5.8 million.

*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

**Consolidated Statements of Income**

**(Dollars in thousands)**

| Year Ended<br>December 31,<br>2016 |   | Year Ended<br>December 31,<br>2015 |   |
|------------------------------------|---|------------------------------------|---|
| Amount                             | % | Amount                             | % |

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|   |           |         |           |         |
|---|-----------|---------|-----------|---------|
| Revenues:   |           |         |           |         |
| Services and fees                                   | \$164,235 | 86.3 %  | \$101,929 | 90.6 %  |
| Sale of goods                                       | 26,116    | 13.7 %  | 10,596    | 9.4 %   |
| Total revenues                                      | 190,351   | 100.0%  | 112,525   | 100.0%  |
| Operating expenses:                                 |           |         |           |         |
| Direct cost of services                             | 40,857    | 21.5 %  | 29,049    | 25.8 %  |
| Cost of goods sold                                  | 14,755    | 7.8 %   | 3,072     | 2.7 %   |
| Selling, general and administrative expenses        | 82,127    | 43.1 %  | 58,322    | 51.8 %  |
| Restructuring charge                                | 3,887     | 2.0 %   | —         | 0.0 %   |
| Total operating expenses                            | 141,626   | 74.4 %  | 90,443    | 80.4 %  |
| Operating income                                    | 48,725    | 25.6 %  | 22,082    | 19.6 %  |
| Other income (expense):                             |           |         |           |         |
| Interest income                                     | 318       | 0.2 %   | 17        | 0.0 %   |
| Interest expense                                    | (1,996 )  | (1.0 %) | (834 )    | (0.7 %) |
| Income before income taxes                          | 47,047    | 24.7 %  | 21,265    | 18.9 %  |
| Provision for income taxes                          | (14,321 ) | (7.5 %) | (7,688 )  | (6.8 %) |
| Net income  | 32,726    | 17.2 %  | 13,577    | 12.1 %  |
| Net income attributable to noncontrolling interests | 11,200    | 5.9 %   | 1,772     | 1.6 %   |
| Net income attributable to B. Riley Financial, Inc. | \$21,526  | 11.3 %  | \$11,805  | 10.5 %  |

## Revenues

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

|   | Year Ended<br>December 31,<br>2016 |         | Year Ended<br>December 31,<br>2015 |         | Change   |         |
|---|------------------------------------|---------|------------------------------------|---------|----------|---------|
|   | Amount                             | %       | Amount                             | %       | Amount   | %       |
| Revenues - Services and fees:                 |                                    |         |                                    |         |          |         |
| Capital Markets segment                       | \$39,335                           | 20.7 %  | \$35,183                           | 31.3 %  | \$4,152  | 11.8 %  |
| Auction and Liquidation segment               | 61,891                             | 32.5 %  | 35,633                             | 31.7 %  | 26,258   | 73.7 %  |
| Valuation and Appraisal segment               | 31,749                             | 16.7 %  | 31,113                             | 27.6 %  | 636      | 2.0 %   |
| Principal Investments - United Online segment | 31,260                             | 16.4 %  | —                                  | n/m     | 31,260   | n/m     |
| Subtotal                                      | 164,235                            | 86.3 %  | 101,929                            | 90.6 %  | 62,306   | 61.1 %  |
| Revenues - Sale of goods                      |                                    |         |                                    |         |          |         |
| Auction and Liquidation segment               | 25,855                             | 13.6 %  | 10,596                             | 9.4 %   | 15,259   | 144.0 % |
| Principal Investments - United Online segment | 261                                | 0.1 %   | —                                  | n/m     | 261      | n/m     |
| Subtotal                                      | 26,116                             | 13.7 %  | 10,596                             | 9.4 %   | 15,520   | 146.5 % |
| Total revenues                                | \$190,351                          | 100.0 % | \$112,525                          | 100.0 % | \$77,826 | 69.2 %  |

n/m – not applicable or not meaningful.

Total revenues increased \$77.8 million to \$190.4 million during the year ended December 31, 2016 from \$112.6 million during the year ended December 31, 2015. The increase in revenues during the year ended December 31, 2016 was primarily due to an increase in revenues from services and fees of \$62.3 million and an increase in revenues from the sale of goods of \$15.5 million. The increase in revenues from services and fees of \$62.3 million in 2016 was primarily due to an increase in revenues of (a) \$4.1 million in the capital markets segment, (b) \$26.3 million in the auction and liquidation segment, (c) \$0.6 million in the valuation and appraisal segment, and (d) \$31.3 million in the principal investments – United Online segment from the acquisition of UOL on July 1, 2016. The increase in revenues from sale of goods of \$15.5 million was primarily due to sale of retail goods that we acquired title to in September 2016 in connection with the retail liquidation engagement of MS Mode, a retailer of women's apparel that operated 130 retail locations throughout the Netherlands.

Revenues from services and fees in the capital markets segment increased \$4.1 million, or 11.8% to \$39.3 million during the year ended December 31, 2016 from \$35.2 million during the year ended December 31, 2015. The increase in revenues was primarily due to an increase in revenues of \$4.1 million from trading income and \$1.6 million from

commissions, fees and other income primarily earned from research, sales and trading, and wealth management services, offset by a decrease in revenues of \$1.6 million from investment banking fees. The increase in revenues from trading income in 2016 was primarily due to an increase in income we earned from trading activities in our propriety trading account. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage. The decrease in revenues from investment banking fees was primarily due to a decrease in the number of investment banking transactions where we acted as an advisor in 2016 as compared to the same period in 2015.

Revenues from services and fees in the auction and liquidation segment increased \$26.3 million, or 73.7%, to \$61.9 million during the year ended December 31, 2016 from \$35.6 million during the year ended December 31, 2015. The increase in revenues of \$26.3 million was primarily due to an increase in revenues of \$27.9 million from services and fees from retail liquidation engagements, offset by a decrease in revenues of \$1.6 million from services and fees in our wholesale and industrial auction division. The increase in revenues from services and fees from retail liquidation engagements was primarily due to (a) revenues from the liquidation of inventory for the going-out-of-business sale of 185 Hancock Fabric stores in the United States and (b) revenues from the liquidation of inventory for the going-out-of-business sale of 63 Masters Home Improvement stores in Australia. In 2015, we only had revenues from one large retail liquidation engagement where we participated in a joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada. The decrease in revenues from services and fees in our wholesale and industrial division was primarily due to a decrease in the number of wholesale and industrial auction engagements in 2016 as compared to the same period in 2015.

Revenues from services and fees in the valuation and appraisal segment increased \$0.6 million, or 2.0%, to \$31.7 million during the year ended December 31, 2016 from \$31.1 million during the year ended December 31, 2015. The increase in revenues was primarily due to increases of (a) \$0.3 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$0.4 million related to appraisal engagements where we perform valuations of intellectual property and business valuations. These increases were offset by a decrease in revenues of \$0.1 million related to appraisal engagements where we perform valuations of machinery and equipment.

Revenues from services and fees in the principal investments – United Online segment of \$31.3 million in 2016 were the result of the acquisition of UOL on July 1, 2016. These revenues include \$22.4 million in services and fees primarily from customer paid accounts related to our Internet access and related subscription services and \$8.9 million in advertising revenues from Internet display advertising and search related to our email and Internet access services. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments – United Online segment to continue to decline year over year.

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

|                                   | Year Ended December 31, 2016    |   |          | Year Ended December 31, 2015    |   |          |
|-----------------------------------|---------------------------------|---|----------|---------------------------------|---|----------|
|                                   | Auction and Liquidation Segment | Principal Investments - United Online Segment | Total    | Auction and Liquidation Segment | Principal Investments - United Online Segment | Total    |
| Revenues - Sale of Goods          | \$25,855                        | \$ 261  | \$26,116 | \$10,596                        | \$ —  | \$10,596 |
| Cost of goods sold                | 14,502                          | 253   | 14,755   | 3,072                           | —   | 3,072    |
| Gross margin on services and fees | \$11,353                        | \$ 8  | \$11,361 | \$7,524                         | \$ —  | \$7,524  |
| Gross margin percentage           | 43.9 %                          | 3.1 %   | 43.5 %   | 71.0 %                          | n/m   | 71.0 %   |

Revenues from the sale of goods increased \$15.5 million, to \$26.1 million during the year ended December 31, 2016 from \$10.6 during the year ended December 31, 2015. Revenues from the sale of goods in 2016 was primarily due to the sale of retail goods related to the retail liquidation engagement of MS Mode in Europe where we took title to the goods and operated the MS Mode stores during the liquidation period. In the principal investments – United Online segment, revenues from the sale of goods was primarily due to the sale of mobile broadband devices that are sold in connection with the mobile broadband services we offer our customers. Revenues from the sale of goods in 2015 was primarily due to the sale of retail goods related to the retail liquidation engagement of Schoenenreus in the Netherlands where we took title to the goods and operated the Schoenenreus stores during the liquidation period. Cost of goods sold in 2016 was \$14.8 million resulting in a gross margin of \$11.4 million or 43.5% during the year ended December 31, 2016. Cost of goods sold in 2015 was \$3.1 million resulting in a gross margin of \$7.5 million or 71.0% during the year ended December 31, 2015.

### 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, 2016 and 2015 are as follows:

|                                   | Year Ended December 31, 2016    |          |                                 |          | Year Ended December 31, 2015                  |          |   |          |       |
|-----------------------------------|---------------------------------|----------|---------------------------------|----------|---|----------|---|----------|-------|
|                                   | Auction and Liquidation Segment |          | Valuation and Appraisal Segment |          | Principal Investments – United Online Segment |          | Principal Investments – United Online Segment |          | Total |
| Revenues - Services and fees      | \$61,891                        | \$31,749 | \$31,260                        |          | \$35,633                                      | \$31,113 | \$—   |          |       |
| Direct cost of services           | 17,787                          | 13,983   | 9,087                           | \$40,857 | 15,489  | 13,560   | —   | \$29,049 |       |
| Gross margin on services and fees | \$44,104                        | \$17,766 | \$22,173                        |          | \$20,144                                      | \$17,553 | \$—   |          |       |
| Gross margin percentage           | 71.3 %                          | 56.0 %   | 70.9 %                          |          | 56.5 %  | 56.4 %   | n/m   |          |       |

n/m – not applicable or not meaningful.

Total direct costs increased \$11.8 million, to \$40.9 million during the year ended December 31, 2016 from \$29.1 million during the year ended December 31, 2015. Direct costs of services increased by (a) \$2.3 million in the auction and liquidation segment, (b) \$0.4 million in the valuation and appraisal segment, and (c) \$9.1 million in the principal investments – United Online segment as a result of the acquisition of UOL on July 1, 2016. The increase in direct costs in the auction and liquidation segment was primarily due to costs incurred in connection with the retail liquidation of inventory from operating the MS Mode retail stores located in the Netherlands in 2016. The increase in direct costs of services in the valuation and appraisal segment was primarily due to an increase in payroll and related expenses due to an increase headcount 2016 as compared to the same period in 2015.

### ***Auction and Liquidation***

Gross margin in the auction and liquidation segment for services and fees increased to 71.3% of revenues during the year ended December 31, 2016, as compared to 56.5% of revenues during the year ended December 31, 2015. The increase in gross margin during the year ended December 31, 2016 was primarily due to a change in the mix of fee type engagements in 2016 as compared to the same period in 2015 and the impact of the revenues we earned from the liquidation of inventory for the going-out-of-business sale of 185 Hancock Fabric stores in the United States and liquidation of inventory for the going-out-of-business sale of 63 Masters Home Improvement stores in Australia.



***Valuation and Appraisal***

Gross margins in the valuation and appraisal segment decreased to 56.0% of revenues during the year ended December 31, 2016 as compared to 56.4% of revenues during the year ended December 31, 2015. The decrease in gross margin is primarily due to an increase in payroll and related expenses from an increase in headcount during 2016 as compared to same period in 2015.

***Principal Investments – United Online***

Gross margin in the principal investments – United Online segment of \$22.2 million or 70.9% of revenues was the result of the acquisition of UOL on July 1, 2016. Direct costs in the principal investments – United Online segment of \$9.1 million includes telecommunications and data center costs, personnel and overhead-related costs associated with operating our networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billings and processing of customer credit cards and associated bank fees.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the years ended December 31, 2016 and 2015 were comprised of the following:

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

(Dollars in thousands)

|  | Year Ended<br>December 31,<br>2016 |         | Year Ended<br>December 31,<br>2015 |         | Change   |         |
|--|------------------------------------|---------|------------------------------------|---------|----------|---------|
|  | Amount                             | %       | Amount                             | %       | Amount   | %       |
| Capital Markets segment                          | \$33,244                           | 40.5 %  | \$30,748                           | 52.7 %  | \$2,496  | 8.1 %   |
| Auction and Liquidation segment                  | 14,357                             | 17.5 %  | 8,361                              | 14.3 %  | 5,996    | 71.7 %  |
| Valuation and Appraisal segment                  | 8,885                              | 10.8 %  | 9,238                              | 15.8 %  | (353 )   | (3.8 %) |
| Principal Investments - United Online segment    | 9,492                              | 11.5 %  | —                                  | n/m     | 9,492    | n/m     |
| Corporate and Other segment                      | 16,149                             | 19.7 %  | 9,975                              | 17.2 %  | 6,174    | 61.9 %  |
| Total selling, general & administrative expenses | \$82,127                           | 100.0 % | \$58,322                           | 100.0 % | \$23,805 | 40.8 %  |



n/m – not applicable or not meaningful.

Total selling, general and administrative expenses increased \$23.8 million, or 40.8%, to \$82.1 million during the year ended December 31, 2016 from \$58.3 million for the year ended December 31, 2015. The increase in expenses was primarily due to an increase in selling, general and administrative expenses of (a) \$2.5 million in the capital markets segment, (b) \$6.0 million in the auction and liquidation segment, (c) \$9.5 million in the principal investments – United Online segment as a result of the acquisition of UOL on July 1, 2016, and (d) \$6.2 million in corporate and other, offset by a decrease in expenses of \$0.4 million in the valuation and appraisal segment.

### ***Capital Markets***

Selling, general and administrative expenses in the capital markets segment increased by \$2.5 million, or 8.1% to \$33.2 million during the year ended December 31, 2016 from \$30.7 million during the year ended December 31, 2015. The increase in expenses of \$2.5 million was primarily due to an increase in incentive compensation as a result of the increase in revenues from investment banking fees in 2016 as compared to the same period in 2015 discussed above.

### ***Auction and Liquidation***

Selling, general and administrative expenses in the auction and liquidation segment increased \$6.0 million, or 71.7%, to \$14.4 million during the year ended December 31, 2016 from \$8.4 million for the year ended December 31, 2015. The increase in expenses was primarily due to (a) an increase in payroll and incentive compensation of \$2.6 million, (b) an increase in consulting fees of \$3.6 million, and (c) an increase in legal and professional fees of \$3.0 million in 2016 as compared to the same period in 2015. The increase in payroll, consulting and incentive compensation was primarily due to an increase in operating income from international retail liquidation engagements in 2016 as compared to the same period in 2015. The increase in legal and professional fees is primarily due to an increase in business activity in the auction and liquidation segment in 2016.

### *Valuation and Appraisal*

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$0.4 million, or 3.8%, to \$8.9 million during year ended December 31, 2016 from \$9.2 million for the year ended December 31, 2015. The decrease of \$0.4 million was primarily due to a decrease in payroll and other operating expenses in 2016 as compared to the same period in 2015.

### *Principal Investments – United Online*

Selling, general and administrative expenses in the principal investments – United Online segment of \$9.5 million in 2016 were the result of the acquisition of UOL on July 1, 2016. These expenses include \$2.4 million of technology and development expenses, \$0.8 million of sales and marketing expenses, \$3.5 million of general and administrative expenses and \$2.8 million of amortization of intangibles, offset by \$1.6 million from a recovery of an insurance dispute. Technology and development expenses include expenses for product development, maintenance of existing software, technology and websites. Sales and marketing expenses include expenses associated personnel and overhead-related expenses for marketing, customer service, and advertising sales personnel to acquire and retain paid subscribers. Expenses associated with generating advertising revenues include sales commissions and personnel-related expenses. General and administrative expenses consist of personnel-related expenses for management in the principal investments – United Online segment, facilities, internal customer support personnel and personnel associated with operating our corporate systems. Amortization of intangibles includes amortization expense related to customer lists, advertising relationships, tradenames and internally developed software.

### *Corporate and Other.*

Selling, general and administrative expenses for corporate and other increased \$6.2 million, or 61.9%, to \$16.2 million during the year ended December 31, 2016 from \$10.0 million for the year ended December 31, 2015. The increase was primarily due to (a) an increase in payroll and related expenses of \$3.0, (b) an increase in accounting and professional fees of \$2.0 million which includes transaction costs of \$1.2 million related to acquisitions; (c) restructuring charge of \$0.4 million related to combining our corporate office location with the offices of UOL, and (d) a fair value adjustment of \$0.8 million in connection with the mandatorily redeemable noncontrolling interests.

**Restructuring Charge.** During the year ended December 31, 2016, we incurred a restructuring charge of \$3.9 million. There was no restructuring charge during the year ended December 31, 2015. The restructuring charge in 2016 included \$3.5 million of employee termination costs related to a reduction in personnel in the corporate offices of UOL after our acquisition on July 1, 2016 and \$0.4 million of charges related to combining our corporate office

location with the offices of UOL.

**Other Income (Expense).** Other income included interest income of \$0.3 million during the year ended December 31, 2016 and less than \$0.1 million during the year ended December 31, 2015. Interest expense was \$2.0 million during the year ended December 31, 2016 as compared to \$0.8 million during the year ended December 31, 2015. The increase in interest expense during the year ended December 31, 2016 was primarily due to (a) an increase in interest expense of \$0.5 million incurred from borrowings under our \$100 million asset based credit facility, (b) interest expense of \$0.3 million incurred on the acquisition consideration payable related to our acquisition of UOL on July 1, 2016 as a result of the Quadre Litigation and (c) interest expense of \$0.4 million incurred in 2016 from the issuance of senior notes in November 2016.

**Income Before Income Taxes.** Income before income taxes was \$47.0 million during the year ended December 31, 2016, an increase of \$25.7 million, from \$21.3 million during the year ended December 31, 2015. The increase in income before income taxes of \$25.7 million during the year ended December 31, 2016 as compared to the same period in 2015 was primarily due to an increase in operating income of (a) \$21.8 million in our auction and liquidation segment, (b) \$9.2 million of income generated from our principal investments – United Online segment as a result of the acquisition of UOL on July 1, 2016, (c) \$1.7 million in our capital markets segment, and (d) \$0.6 million in our valuation and appraisal segment, offset by an increase in corporate overhead of \$6.6 million and interest expense of \$1.0 million.

**Provision For Income Taxes.** Provision for income taxes was \$14.3 million during the year ended December 31, 2016, an increase of \$6.6 million, from \$7.7 million during the year ended December 31, 2015. The effective income tax rate was 30.4% during the year ended December 31, 2016 and 36.2% during the year ended December 31, 2015. The decrease in the effective income tax rate during the year ended December 31, 2016 from the same period in 2015 was primarily due to the tax differential on net income attributable to noncontrolling interests.

**Net Income Attributable to Noncontrolling Interests.** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC and GA Retail Investments, L.P. that we do not own. The net income attributable to noncontrolling interests was \$11.2 million during the year ended December 31, 2016 compared to net income attributable to noncontrolling interests of \$1.8 million during the year ended December 31, 2015.

**Net Income Attributable to the Company.** Net income attributable to the Company for the year ended December 31, 2016 was \$21.5 million, an increase of \$9.7 million, from \$11.8 million during the year ended December 31, 2015. The increase in net income during the year ended December 31, 2016 as compared to the same period in 2015 was primarily due to an increase in operating income in the auction and liquidation segment and operating income from the principal investment – United Online segment as a result of the acquisition of UOL on July 1, 2016 as discussed above.

## Liquidity and Capital Resources

Our operations are funded through a combination of existing cash on hand, cash generated from operations, proceeds from the issuance of common stock, and borrowings under our senior notes payable, credit facility and special purposes financing arrangements. On May 10, 2016, we completed a secondary offering of 2,420,980 shares of common stock at a price to the public of \$9.50 per share. The net proceeds from the offering were \$22.8 million after deducting underwriting commissions and other offering expenses. On November 2, 2016, we issued \$28.8 million of Senior Notes due in 2021 (the “2021 Notes”), and during the third and fourth quarter of 2017, we issued an additional \$6.5 million of 2021 Notes. Interest on the 2021 Notes is payable quarterly at 7.50% commencing January 31, 2017. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, we received net proceeds of \$34.3 million (after underwriting commissions, fees and other issuance costs of \$1.0 million). On May 31, 2017, we issued \$60.4 million of Senior Notes due in May 2027 (the “7.50% 2027 Notes”), and during the third and fourth quarter of 2017, we issued an additional \$32.1 million of the 7.50% 2027 Notes. Interest is payable quarterly at 7.50% commencing July 31, 2017. The 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, we received net proceeds of \$90.8 million (after underwriting commissions, fees and other issuance costs of \$1.7 million). On December 13, 2017, we issued \$80.5 million of Senior Notes due in December 2027 (the “7.25% 2027 Notes”). Interest is payable quarterly at 7.25% commencing January 31, 2018. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, we received net proceeds of \$78.2 million (after underwriting commissions, fees and other issuance costs of \$2.3 million).

During the years ended December 31, 2017 and 2016, we generated net income of \$11.6 million and \$21.5 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.

As of December 31, 2017, we had \$132.8 million of unrestricted cash, \$19.7 million of restricted cash, investments in securities and other investments of \$145.4 million, and approximately \$205.8 million of borrowings outstanding. The borrowings outstanding of approximately \$205.8 million at December 31, 2017 included (a) \$34.5 million of borrowings from the issuance of the 2021 Notes, (b) \$90.9 million of borrowings from the issuance of the 7.50% 2027 Notes, (c) \$78.2 million of borrowings from the issuance of the 7.25% 2027 Notes, and (d) other notes payable of \$2.2 million. We believe that our current cash and cash equivalents, securities and other investments owned, funds available under our asset based credit facility, UOL line of credit 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 from issuance date of the accompanying financial statements. We continue to monitor our financial performance to ensure sufficient liquidity to fund operations and execute on our business plan.

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. During the years ended December 31, 2017 and 2016, we paid cash dividends of \$14.9 million and \$5.3 million, respectively, on our common stock. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, 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.

|   | <b>Year Ended December 31,</b> |          |          |
|---|--------------------------------|----------|----------|
|   | 2017                           | 2016     | 2015     |
|   | <b>(Dollars in thousands)</b>  |          |          |
| Net cash (used in) provided by:           |                                |          |          |
| Operating activities                      | \$(81,790 )                    | \$80,280 | \$31,671 |
| Investing activities                      | (33,622 )                      | (36,872) | 4,918    |
| Financing activities                      | 134,094                        | 40,404   | (28,050) |
| Effect of foreign currency on cash        | 2,036                          | (1,719 ) | (127 )   |
| Net increase in cash and cash equivalents | \$20,718                       | \$82,093 | \$8,412  |

*Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*

Cash used in operating activities was \$81.8 million for the year ended December 31, 2017, a decrease of \$162.1 million, from cash provided by operating activities of \$80.3 million for the year ended December 31, 2016. Cash used in operating activities for the year ended December 31, 2017 includes net income of \$11.9 million adjusted for noncash items and changes in operating assets and liabilities. The decrease in cash provided by operating activities of \$162.1 million was primarily due to (a) an decrease in net income of \$20.8 million to \$11.9 million during the year ended December 31, 2017, from \$32.7 million during the comparable year in 2016, (b) an increase in non-cash charges and other items of \$36.8 million, which included recovery of key man life insurance of \$(6.0) million, depreciation and amortization of \$11.1 million, share based compensation \$10.3 million, impairment of leasehold improvements and other of \$3.6 million, income allocated and fair value adjustment for mandatorily redeemable noncontrolling interest of \$10.8 million and deferred income taxes of \$5.7 million, and (c) changes in operating assets and liabilities that resulted in an decrease of \$130.5 million in cash flows from operations during the year ended December 31, 2017 as compared to the same year in 2016.

Cash used in investing activities was \$33.6 million during the year ended December 31, 2017 compared to cash used in investing activities of \$36.9 million during for the year ended December 31, 2016. During the year ended December 31, 2017, cash used in investing activities consisted of (a) cash used to purchase Wunderlich and United Online in the amounts of approximately \$25.4 million and \$10.4 million, respectively, (b) an increase in restricted cash of \$15.8 million, (c) cash use of \$2.1 million for the acquisition of other businesses, (d) cash use of \$1.7 million for an equity investment, and (e) cash use of \$0.8 million for purchases of property and equipment, offset by (a) cash acquired from the acquisition of FBR of \$15.7 million, (b) proceeds from key man life insurance of \$6.0 million, and (c) proceeds from sale of property, equipment and other intangibles of \$0.8 million. During the year ended December 31, 2016, cash used in investing activities was primarily comprised of (a) cash used to purchase UOL in the amount of \$33.4 million, (b) an increase in restricted cash of \$2.8 million, and (c) \$0.7 million of cash used to purchase property and equipment.

Cash provided by financing activities was \$134.1 million during the year ended December 31, 2017 compared to \$40.4 million during the year ended December 31, 2016. During the year ended December 31, 2017, cash provided by financing activities primarily consisted of (a) \$66.0 million proceeds from asset based credit facility and (b) \$179.5 million proceeds from issuance of senior notes, offset by (a) \$66.0 million used to repay the asset based credit facility, (b) \$16.8 million used to pay cash dividends, (c) \$8.3 million used to repay other notes payable in connection with the acquisition of Wunderlich, (d) \$11.3 million distributions to noncontrolling interests, (e) \$4.3 million used for debt issuance costs, (f) \$1.3 million used for the payment of contingent consideration, and (g) \$3.5 million used for the payment of employment taxes on vesting of restricted stock. During the year ended December 31, 2016, cash provided by financing activities primarily consisted of (a) \$22.8 of net proceeds from our secondary offering of common stock in May 2016 and (b) \$27.7 million of net proceeds from the issuance of our Senior Notes in November 2016, offset by cash used in financing activities of (a) \$5.3 million of dividends paid on our common stock, (b) \$2.0 million of distributions to noncontrolling interests, (c) \$1.2 million of cash used to pay employment taxes on the vesting of restricted stock, and (d) \$1.6 million of cash used for the repayment of amounts outstanding under our revolving credit facilities and contingent consideration payable

*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

Cash provided by operating activities was \$80.3 million for the year ended December 31, 2016, an increase of \$48.6 million, from cash provided by operating activities of \$31.7 million for the year ended December 31, 2015. Cash provided by operating activities for the year ended December 31, 2016 includes net income of \$32.7 million adjusted for noncash items and changes in operating assets and liabilities. The increase in cash provided by operating activities of \$80.3 million was primarily due to (a) an increase in net income of \$9.7 million to \$21.5 million during the year ended December 31, 2016, from \$11.8 million during the comparable period in 2015, (b) an increase in non-cash charges and other items of \$15.6 million which included depreciation and amortization of \$4.3 million, share based compensation \$2.8 million and deferred income taxes of \$3.5 million, and (c) changes in operating assets and liabilities that resulted in an increase of \$32.0 million in cash flows from operations during the year ended December 31, 2016 as compared to the same period in 2015.

Cash used in investing activities was \$36.9 million for the year ended December 31, 2016 compared to cash provided by investing activities of \$4.9 million for the year ended December 31, 2015. During the year ended December 31, 2016, cash used in investing activities was primarily comprised of (a) cash used to purchase UOL in the amount of \$33.4 million, (b) an increase in restricted cash of \$2.8 million, and (c) \$0.7 million of cash used to purchase property and equipment. During the year ended December 31, 2015, cash provided by investing activities was primarily comprised of cash provided from a \$7.6 million decrease in restricted cash, offset by \$0.3 million of cash used to purchase property and equipment and \$2.5 million of cash used in connection with the acquisition of MK Capital.

Cash provided by financing activities was \$40.4 million during the year ended December 31, 2016 compared to cash used by financing activities of \$28.1 million during the year ended December 31, 2015. During the year ended December 31, 2016, cash provided by financing activities primarily consisted of (a) \$22.8 of net proceeds from our secondary offering of common stock in May 2016 and (b) \$27.7 million of net proceeds from the issuance of our Senior Notes in November 2016, offset by cash used in financing activities of (a) \$5.3 million of dividends paid on our common stock, (b) \$2.0 million of distributions to noncontrolling interests, (c) \$1.2 million of cash used to pay employment taxes on the vesting of restricted stock, and (d) \$1.6 million of cash used for the repayment of amounts outstanding under our revolving credit facilities and contingent consideration payable.

### *Contingent Consideration.*

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

### *Credit Agreements*

On April 21, 2017, we amended the credit agreement (as amended, the "Credit Agreement") governing our asset based credit facility with Wells Fargo Bank, National Association ("Wells Fargo Bank") to increase the maximum borrowing limit from \$100.0 million to \$200.0 million. Such amendment, among other things, also extended the expiration date of the credit facility from July 15, 2018 to April 21, 2022. The Credit Agreement continues to allow for borrowings under the separate credit agreement (a "UK Credit Agreement") which was dated March 19, 2015 with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom with borrowings up to 50.0 million British Pounds. Any borrowing on the UK Credit Agreement reduce the availability of the asset based \$200.0 million credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. The Credit Agreement continues to include the addition of our Canadian subsidiary, from the October 5, 2016 amendment to the Credit Agreement, to facilitate borrowings to fund retail liquidation transactions in Canada. From time to time, we utilize this 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 \$200.0 million under the credit facility, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect). 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. 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 2.5% to 17.5% 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 our 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, 2017, there was \$18,505 of letters of credits outstanding under the credit facility. There were no borrowings or letters of credit outstanding at December 31, 2016.

On April 13, 2017, UOL, in the capacity as borrower, entered into a credit agreement (the “UOL Credit Agreement”) with the Banc of California, N.A. in the capacity as agent and lender. The UOL Credit Agreement provides for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20.0 million which amount is reduced by \$1.5 million commencing on June 30, 2017 and on the last day of each calendar quarter thereafter. The final maturity date is April 13, 2020. The proceeds of the UOL Credit Agreement can be used (a) for working capital and general corporate purposes and/or (b) to pay dividends or permitted tax distributions to its parent company, subject to the terms of the UOL Credit Agreement. Borrowings under the UOL Credit Agreement will bear interest at a rate equal to (a) (i) the base rate (the greater of the federal funds rate plus one half of one percent (0.5%), or the prime rate) for U.S. dollar loans or (ii) at UOL’s option, the LIBOR Rate for Eurodollar loans, plus (b) the applicable margin rate, which ranges from two percent (2%) to three and one-half percent (3.5%) per annum, based upon UOL’s ratio of funded indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the preceding four (4) fiscal quarters. Interest payments are to be made each one, three or six months for Eurodollar loans, and quarterly for U.S. dollar loans.

UOL paid a commitment fee equal to 1.00% of the aggregate commitments upon the closing of the UOL Credit Agreement. The UOL Credit Agreement also provides for an unused line fee payable quarterly, in arrears, in an amount equal to: (a) 0.50% per annum times the amount of the unused revolving commitment that is less than or equal to the amount of the cash maintained in accounts with the agent (as depositary bank); plus (b) 1.00% per annum times the amount of the unused revolving commitment that is greater than the amount of the cash maintained in accounts with the agent (as depositary bank). Any amounts outstanding under the UOL Credit Facility are due at maturity. At December 31, 2017, there were no borrowings or letters of credits outstanding under this credit facility.

### *Senior Note Offerings*

On November 2, 2016, we issued \$28.8 million of Senior Notes (the “2021 Notes”), and during the third and fourth quarter of 2017, we issued an additional \$6.5 million of the 2021 Notes. Interest is payable quarterly at 7.50% commencing January 31, 2017. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, we received net proceeds of \$34.3 million (after underwriting commissions, fees and other issuance costs of \$1.0 million). The outstanding balance of the 2021 Notes was \$34.5 million (net of unamortized debt issue costs and premiums of \$0.8 million) at December 31, 2017. In connection with the offering of 2021 Notes, certain members of our management and the Board of Directors purchased \$2.7 million or 9.5% of the 2021 Notes offered by us.

On May 31, 2017, we issued \$60.4 million of Senior Notes (the “7.50% 2027 Notes”), and during the third and fourth quarter of 2017 we issued an additional \$32.1 million of the 7.50% 2027 Notes. Interest is payable quarterly at 7.50% commencing July 31, 2017. The 7.50% 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, we received net proceeds of \$90.8 million (after underwriting commissions, fees and other issuance costs of \$1.7 million). The outstanding balance of the 7.50% 2027 Notes was \$90.9 million (net of unamortized debt issue costs of \$1.6 million) at December 31, 2017.

On December 13, 2017, we issued \$80.5 million of Senior Notes (the “7.25% 2027 Notes”). Interest is payable quarterly at 7.25% commencing January 31, 2018. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, we received net proceeds of \$78.2 million (after underwriting commissions, fees and other issuance costs of \$2.3 million). The outstanding balance of the 7.25% 2027 Notes was \$78.2 million (net of unamortized debt issue costs of \$2.3 million) at December 31, 2017.

On December 19, 2017, we entered into the Sales Agreement and filed a prospectus supplement, pursuant to which we may sell from time to time, at our option up to an aggregate of \$19.0 million of the 2021 Notes, the 7.50% 2027 Notes and the 7.25% 2027 Notes. The Notes sold pursuant to the Sales Agreement will be issued pursuant to a prospectus dated March 29, 2017, as supplemented by a prospectus supplement dated June 28, 2017, in each case filed with the Securities and Exchange Commission pursuant to our effective Registration Statement on Form S-3 (File No.

333-216763), which was declared effective by the Securities and Exchange Commission on March 29, 2017. The Notes will be issued pursuant to the Indenture, dated as of November 2, 2016, as supplemented by a First Supplemental Indenture, dated as of November 2, 2016 and the Second Supplemental Indenture, dated as of May 31, 2017, each between us and U.S. Bank, National Association, as trustee. Future sales of the 2021 Notes, the 7.50% 2027 Notes, and 7.25% 2027 Notes pursuant to the Sales Agreement will depend on a variety of factors including, but not limited to, market conditions, the trading price of the notes and our capital needs. At December 31, 2017, we have \$19.0 million of 2021 Notes, 7.50% 2027 Notes or 7.25% 2027 Notes that may be sold pursuant to the Sales Agreement. There can be no assurance we will be successful in consummating future sales based on prevailing market conditions or in the quantities or at the prices that we may deem appropriate.

### ***Other Borrowings***

In August 2016, we formed GA Retail Investments, L.P., a Delaware limited partnership, (the “Partnership”) which required us to contribute \$15.4 million. The Partnership borrowed \$80.0 million Australian dollars from a third party investor in connection with its formation and the \$80.0 million Australian dollars was exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement we entered into to liquidate the Masters Home Improvement stores. The \$80.0 million Australian dollar participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and the principal amount was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At December 31, 2017 and December 31, 2016, \$1.3 million and \$10.0 million, respectively, was payable in accordance with the participating note payable share of profits and is included net income attributable to noncontrolling interests and amounts Due to partners in the consolidated financial statements.

Other notes payable include notes payable to a clearing organization for one of the Company’s broker dealers. The notes payable accrue interest at rates ranging from the prime rate plus 0.25% to 2.0% (4.75% to 6.50% at December 31, 2017) payable annually. The principal payments on the notes payable are due annually in the amount of \$0.4 million on January 31, \$0.2 million on September 30, and \$0.1 million on October 31. The notes payable mature at various dates from September 30, 2018 through January 31, 2022. At December 31, 2017, the outstanding balance for the notes payable were \$2.2 million.

### **Off Balance Sheet Arrangements**

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

### **Dividends**

On May 4, 2015, our Board of Directors approved a dividend of \$0.06 per share, which was paid on or about June 12, 2015 to stockholders of record on May 22, 2015. On August 10, 2015, our Board of Directors approved a dividend of \$0.20 per share, which was paid on or about September 10, 2015 to stockholders of record on August 25, 2015. On November 9, 2015, our Board of Directors approved a dividend of \$0.06 per share, which was paid on or about December 9, 2015 to stockholders of record on November 24, 2015. On August 4, 2016, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about September 8, 2016 to stockholders of record on August 22, 2016. On November 13, 2016, our Board of Directors approved a regular dividend of \$0.08 per share and a special dividend of \$0.17 per share, which was paid on or about December 14, 2016 to stockholders of record on November 29, 2016. On February 20, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.18 per share, which were paid on or about March 13, 2017 to stockholders of record on March 6, 2017. On May 10, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which were paid on or about May 31, 2017 to stockholders of record on May 23, 2017. On August 7, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.05 per share, which were paid on or about August 29, 2017 to stockholders of record on August 21, 2017. On November 8, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.04 per share, which were paid on or about November 30, 2017 to stockholders of record on November 22, 2017. On March 7, 2018, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which will be paid on or about April 3, 2018 to stockholders of record on March 20, 2018. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, 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, 2017 and the periods in which payments are due:

|  | <b>Payments due by period</b> |                           |                  |                  |                          |
|--|-------------------------------|---------------------------|------------------|------------------|--------------------------|
|  | <b>Total</b>                  | <b>Less Than One Year</b> | <b>1-3 Years</b> | <b>4-5 Years</b> | <b>More Than 5 years</b> |
|  | <b>(Dollars in thousands)</b> |                           |                  |                  |                          |
| <b>Contractual Obligations</b>           |                               |                           |                  |                  |                          |
| Operating lease obligations              | \$57,103                      | 13,496                    | 16,624           | 10,613           | 16,370                   |
| Notes payable                            | 2,548                         | 805                       | 972              | 771              | —                        |
| Senior notes payable, including interest | 342,026                       | 15,415                    | 30,831           | 62,985           | 232,795                  |
| <b>Total</b>                             | <b>\$401,677</b>              | <b>\$29,716</b>           | <b>\$48,427</b>  | <b>\$74,369</b>  | <b>\$249,165</b>         |

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, the completion of our acquisition of magicJack and the capital markets in general, among other factors.

## Critical Accounting Policies

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, 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, investment banking, restructuring and wealth management services; (ii) revenues from sales and trading activities; and (iii) interest income from securities lending 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.

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

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

Revenues from securities lending activities consist of interest income from equity and fixed income securities that are borrowed from one party and loaned to another. The Company maintains relationships with a broad group of banks and broker-dealers to facilitate the sourcing, borrowing and lending of equity and fixed income securities in a "matched book" to limit the Company's exposure to fluctuations in the market value of securities borrowed and securities loaned.

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 condensed consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs.



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

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

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

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.

Revenues in the Principal Investments - United Online segment are primarily comprised of services revenues, which are derived primarily from fees charged to pay accounts; advertising and other revenues; and products revenues, which are derived primarily from the sale mobile broadband service devices, including the related shipping and handling fees.

Service revenues are derived primarily from fees charged to pay accounts and are recognized in the period in which fees are fixed or determinable and the related services are provided to the customer. The Company's pay accounts generally pay in advance for their services by credit card, PayPal, automated clearinghouse or check, and revenues are then recognized ratably over the service period. Advance payments from pay accounts are recorded in the condensed consolidated balance sheets as deferred revenue. In circumstances where payment is not received in advance, revenues

are only recognized if collectability is reasonably assured.

Advertising revenues consist primarily of amounts from the Company's Internet search partner that are generated as a result of users utilizing the partner's Internet search services and amounts generated from display advertisements. The Company recognizes such advertising revenues in the period in which the advertisement is displayed or, for performance-based arrangements, when the related performance criteria are met. In determining whether an arrangement exists, the Company ensures that a written contract is in place, such as a standard insertion order or a customer-specific agreement. The Company assesses whether performance criteria have been met and whether the fees are fixed or determinable based on a reconciliation of the performance criteria and the payment terms associated with the transaction. The reconciliation of the performance criteria generally includes a comparison of customer-provided performance data to the contractual performance obligation and to internal or third-party performance data in circumstances where that data is available.

***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.

***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 the excess of the purchase price over the fair value of net assets acquired in a business combinations and the acquisition of noncontrolling interests. 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 three reporting units, which are the same as its reporting segments described in Note 20 to the consolidated financial statements. 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 2017, we performed a qualitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test and 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, which is comprised of tradenames and customer lists, 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, 2017.

***Fair Value Measurements.*** The Company records 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 is 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, 2015, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, provides an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creates new taxes on certain foreign sourced earnings. As of the completion of these financial statements and related disclosures, we have not completed our accounting for the tax effects of the Tax Act; however, as described below, we have made a reasonable estimate of such effects and recorded a provisional tax expense of \$13.1 million, which is included as a component of income tax expense in the fourth quarter of 2017. This provisional tax expense incorporates assumptions made based upon the Company's current interpretation of the Tax Act, and may change as we receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves. In accordance with SEC Staff Accounting Bulletin No. 118, the Company will finalize the accounting for the effects of the Tax Act no later than the fourth quarter of 2018. Future adjustments made to the provisional effects will be reported as a component of income tax expense from continuing operations in the reporting period in which any such adjustments are determined. See Note 13 for additional information.

### *New Accounting Standards*

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02: Leases (Topic 842) ("ASU 2016-02"). The amendments in this update require lessees, among other things, to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous authoritative guidance. This update also introduces new disclosure requirements for leasing arrangements. ASU 2016-02 will be effective for the Company in fiscal year 2019, but early application is permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which has subsequently been amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a 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 the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. A full retrospective or modified retrospective approach is required. In addition, the new guidance will require enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition.

The Company has elected to apply the modified retrospective method and the impact was determined to be immaterial on the consolidated financial statements. Accordingly, the new revenue standard will be applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

The Company has performed an analysis and identified its revenues and costs that are within the scope of the new guidance. The Company anticipates that its current methods of recognizing revenues will not be significantly impacted by the new guidance. In addition, there may be certain situations where advisory fees are deferred and not recognized, dependent upon performance obligations and other situations that will result in the acceleration of the recognition of revenue on retail liquidation engagements that contain performance-based arrangements if certain predefined outcomes occur. The scope of the accounting update does not apply to revenue associated with financial instruments, and as a result, will not have an impact on the elements of our consolidated statements of operations most closely associated with our secured lending business and proprietary trading income which includes interest income, proprietary trading income and interest expense. The adoption of the accounting update will not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for us in our first quarter of fiscal year 2019, but early application is 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.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*. This standard simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has not yet adopted this update and is currently evaluating the effect this new standard will have on its financial condition and results of operations.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income that provides for the reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Cuts and Jobs Act of 2017. The accounting update is effective for the fiscal year beginning after December 15, 2018 and early adoption is permitted. The accounting update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act of 2017 is recognized. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

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

B. Riley's primary exposure to market risk consists of risk related to changes in interest rates. B. Riley has not used derivative financial instruments for speculation or trading purposes.

### ***Interest Rate Risk***

Our primary exposure to market risk consists of risk related to changes in interest rates. We utilize borrowings under our senior notes payable and credit facilities to fund costs and expenses incurred in connection with our acquisitions and retail liquidation engagements. Borrowings under our senior notes payable are at fixed interest rates and borrowings under our credit facilities bear interest at a floating rate of interest. In our portfolio of securities owned we invest in loans receivable that primarily bear interest at a floating rate of interest.

The primary objective of our investment activities is to preserve capital for the purpose of funding operations while at the same time maximizing the income we receive from investments without significantly increasing risk. To achieve these objectives, our investments allow us to maintain a portfolio of cash equivalents, short-term investments through a variety of securities owned that primarily includes common stocks, loans receivable and investments in partnership interests. Our cash and cash equivalents through December 31, 2017 included amounts in bank checking and liquid money market accounts. We may be exposed to interest rate risk through trading activities in convertible and fixed income securities as well as U.S. Treasury securities, however, based on our daily monitoring of this risk, we believe we currently have limited exposure to interest rate risk in these activities.

### ***Foreign Currency Risk***

The majority of our operating activities are conducted in U.S. dollars. Revenues generated from our foreign subsidiaries totaled \$3.0 million for the year ended December 31, 2017 or less than 1% of our total revenues of \$322.2 million during the year ended December 31, 2017. The financial statements of our foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. We include gains and losses resulting from foreign currency transactions in income, while we exclude those resulting from translation of financial statements from income and include them as a component of accumulated other comprehensive income (loss). Transaction losses, which were included in our consolidated statements of income, amounted to a loss of approximately \$0.8 million, \$0.8 million and \$0.3 million during the years ended December 31, 2017, 2016 and 2015, respectively. We may be exposed to foreign currency risk; however, our operating results during the year ended December 31, 2017 included \$3.0 million of revenues from our foreign subsidiaries and a 10% appreciation of the U.S. dollar relative to the local currency exchange rates would



result in a \$0.3 million increase in our operating income and a 10% depreciation of the U.S. dollar relative to the local currency exchange rates would have resulted in a net decrease in our operating income of approximately \$0.3 million for the year ended December 31, 2017.

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

The information required by this Item 8 is submitted as a separate section beginning on page F-1 of this Annual Report on Form 10-K (the “Financial Statement Schedules”).

## **Item 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING DISCLOSURES**

None.

## **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 pursuant to Rule 13a-15 under the Exchange Act. Based upon the foregoing evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2017 our disclosure controls and procedures were effective at the reasonable assurance level.

### *Changes in Internal Control over Financial Reporting*

On July 3, 2017, we completed the acquisition of Wunderlich and on June 1, 2017, we completed the acquisition of FBR. We are in the process of integrating Wunderlich and FBR and will be conducting an evaluation of internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002. Excluding the Wunderlich and FBR acquisitions, 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 criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) 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, 2017.

Management has excluded from its assessment of internal control over financial reporting at December 31, 2017 the internal control over financial reporting of Wunderlich and FBR and their subsidiaries, which we acquired in purchase business combinations on July 3, 2017 and June 1, 2017 respectively. Wunderlich's total assets and total revenues represent 6.5% and 12.9%, respectively, of our related consolidated financial statement amounts as of and for the year ended December 31, 2017. FBR's total assets and total revenues represent 68.7% and 26.4%, respectively, of our related consolidated financial statement amounts as of and for the year ended December 31, 2017.

Our independent registered public accounting firm, Marcum LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2017, as stated in their report which is included in the Financial Statement Schedules of this Annual Report on Form 10-K.

*Limitations on Effectiveness of Controls and Procedures*

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**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 2018 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2017.

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

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2018 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2017.

### **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 2018 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2017.

### **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 2018 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2017.

### **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 2018 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2017.

**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, 2017 and 2016 and for each of the three years in the year ended December 31, 2017 and the notes thereto, together with the report of the independent auditors on those Consolidated Financial Statements and the effectiveness of internal control over financial reporting of the Company 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   | Incorporated by Reference |            |             |
|-------------|---|---------------------------|------------|-------------|
|             |   | Form                      | Exhibit    | Filing Date |
| <u>2.1+</u> | <u>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 &amp; Co. Holding, LLC, Riley Investment Management LLC, and Bryant Riley.</u> | 8-K                       | 2.1        | 5/19/2014   |
| <u>2.2+</u> | <u>Agreement and Plan of Merger, dated as of May 4, 2016, by and among the registrant, Unify Merger Sub, Inc., and United Online, Inc.</u>  | 8-K                       | 2.1        | 5/6/2016    |
| <u>2.3+</u> | <u>Amended and Restated Agreement and Plan of Merger, dated as of March 15, 2017, and effective as of February 17, 2017, by and among FBR &amp; Co., the registrant and BRC Merger Sub, LLC.</u>  | S-4/A                     | Appendix A | 5/1/2017    |

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|             |  |      |     |           |
|-------------|--|------|-----|-----------|
| <u>2.4+</u> | <u>Merger Agreement, dated as of May 17, 2017, by and among the registrant, Foxhound Merger Sub, Inc., Wunderlich Investment Company, Inc. and the Stockholder Representative.</u> | 8-K  | 2.1 | 5/18/2017 |
| <u>2.5+</u> | <u>Agreement and Plan of Merger, dated as of November 9, 2017, by and among the registrant, B. R. Acquisition Ltd. and magicJack VocalTec Ltd.</u>                                 | 8-K  | 2.1 | 11/9/2017 |
| <u>3.1</u>  | <u>Amended and Restated Certificate of Incorporation, dated as of August 17, 2015.</u>   | 8-K  | 3.1 | 8/18/2015 |
| <u>3.2</u>  | <u>Amended and Restated Bylaws, dated as of November 6, 2014.</u>  | 10-Q | 3.6 | 11/6/2014 |
| <u>4.1</u>  | <u>Form of common stock certificate.</u>   | 10-K | 4.1 | 3/30/2015 |
| <u>4.2</u>  | <u>Base Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee.</u>   | 8-K  | 4.1 | 11/2/2016 |
| <u>4.3</u>  | <u>First Supplemental Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee.</u>                                   | 8-K  | 4.2 | 11/2/2016 |

|       |  |      |       |            |
|-------|--|------|-------|------------|
| 4.4   | <u>Form of 7.50% Senior Note due 2021.</u>   | 8-K  | 4.2   | 11/2/2016  |
| 4.5   | <u>Second Supplemental Indenture, dated as of May 31, 2017, by and between the registrant and U.S. Bank National Association, as Trustee.</u>  | 8-K  | 4.1   | 5/31/2017  |
| 4.6   | <u>Form of 7.50% Senior Note due 2027.</u>   | 8-K  | 4.1   | 5/31/2017  |
| 4.7   | <u>Third Supplemental Indenture, dated as of December 13, 2017, by and between the registrant and U.S. Bank National Association, as Trustee.</u>  | 8-K  | 4.1   | 12/13/2017 |
| 4.8   | <u>Form of 7.25% Senior Note due 2027.</u>   | 8-K  | 4.1   | 12/13/2017 |
| 10.1  | <u>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).</u>  | 10-Q | 10.8  | 8/31/2009  |
| 10.2  | <u>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 &amp; Trust Company.</u>                          | 8-K  | 10.6  | 8/6/2009   |
| 10.3# | <u>Form of Director and Officer Indemnification Agreement.</u>   | 8-K  | 10.11 | 8/6/2009   |
| 10.4  | <u>Loan and Security Agreement (Accounts Receivable &amp; Inventory Line of Credit), dated as of May 17, 2011, by and between BFI Business Finance and Great American Group Advisory &amp; Valuation Services, LLC.</u>                                    | 8-K  | 10.1  | 5/26/2011  |
| 10.5  | <u>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.</u>  | 8-K  | 10.1  | 7/19/2013  |
| 10.6  | <u>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.</u>  | 8-K  | 10.2  | 7/19/2013  |
| 10.7  | <u>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.</u> | 8-K  | 10.1  | 3/25/2014  |
| 10.8  | <u>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.</u>  | 8-K  | 10.2  | 3/25/2014  |
| 10.9# | <u>Employment Agreement, dated as of May 19, 2014, by and between the registrant and Bryant Riley.</u>   | 8-K  | 10.5  | 5/19/2014  |



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|               |   |                    |
|---------------|---|--------------------|
| <u>10.10#</u> | <u>Amended and Restated Employment Agreement, dated as of May 19, 2014, by and between the registrant and Andrew Gumaer.</u>  | 8-K 10.65/19/2014  |
| <u>10.11</u>  | <u>Form of Registration Rights Agreement.</u>   | 8-K 10.25/19/2014  |
| <u>10.12</u>  | <u>First Amendment to Credit Agreement and Limited Consent and Waiver, dated as of May 28, 2014, by and among Wells Fargo Bank, National Association, Great American Group WF, LLC, Great American Group, Inc. and Great American Group, LLC.</u> | 10-Q10.88/14/2014  |
| <u>10.13</u>  | <u>Subordinated Unsecured Promissory Note, dated March 10, 2015, issued by the registrant to Riley Investment Partners, L.P.</u>  | 10-Q10.55/7/2015   |
| <u>10.14</u>  | <u>Third Amendment to Credit Agreement, dated as of February 5, 2015, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association.</u>   | 10-Q10.75/7/2015   |
| <u>10.15</u>  | <u>Fourth Amendment to Credit Agreement, dated as of February 19, 2015, by and between Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association.</u>  | 10-Q10.85/7/2015   |
| <u>10.16#</u> | <u>Amended and Restated 2009 Stock Incentive Plan.</u>  | 10-Q10.18/11/2015  |
| <u>10.17#</u> | <u>Amended and Restated 2009 Stock Incentive Plan – Form of Restricted Stock Unit Agreement.</u>  | 10-Q10.28/11/2015  |
| <u>10.18#</u> | <u>Amended and Restated 2009 Stock Incentive Plan – Stock Bonus Program and Form of Stock Bonus Award Agreement.</u>  | 10-Q10.38/11/2015  |
| <u>10.19#</u> | <u>Employment Agreement, dated as of April 13, 2015, by and between the registrant and Alan N. Forman.</u>  | 10-Q10.48/11/2015  |
| <u>10.20#</u> | <u>B. Riley Financial, Inc. Management Bonus Plan.</u>  | 8-K 10.18/18/2015  |
| <u>10.21</u>  | <u>Fifth Amendment to Credit Agreement, dated June 10, 2016, by and among Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association.</u>   | 10-Q10.18/5/2016   |
| <u>10.22</u>  | <u>Sixth Amendment and Joinder under Credit Facility among Great American Group WF, LLC and Wells Fargo Bank, National Association as Lender October 5, 2016.</u>   | 10-Q10.111/14/2016 |
| <u>10.23</u>  | <u>Underwriting Agreement, dated as of October 27, 2016, by and among the registrant, Wunderlich Securities, Inc. and Compass Point Research &amp; Trading LLC, as representative of the several underwriters named therein.</u>                  | 8-K 1.1 11/2/2016  |
| <u>10.24#</u> | <u>Employment Agreement, dated as of February 17, 2017, by and among B. Riley &amp; Co., LLC, Richard J. Hendrix and the registrant.</u>  | 8-K 10.16/1/2017   |



|               |   |           |            |
|---------------|---|-----------|------------|
| <u>10.25</u>  | <u>Credit Agreement, dated as of April 13, 2017, by and among United Online, Inc., the subsidiaries of United Online, Inc. from time to time party thereto and Banc of California, N.A.</u>   | 10-Q10.1  | 5/10/2017  |
| <u>10.26</u>  | <u>Security and Pledge Agreement, dated as of April 13, 2017, by and among United Online, Inc., the subsidiaries of United Online, Inc. from time to time party thereto and Banc of California, N.A.</u>  | 10-Q10.2  | 8/8/2017   |
| <u>10.27</u>  | <u>Unconditional Guaranty, dated as of April 13, 2017, by the registrant in favor of Banc of California, N.A..</u>  | 10-Q10.3  | 8/8/2017   |
| <u>10.28</u>  | <u>Seventh Amendment to Credit Agreement, dated as of April 21, 2017, by and among Great American Group WF, LLC, GA Retail, Inc., GA Retail Canada, ULC, Wells Fargo Bank, National Association and Wells Fargo Capital Finance Corporation Canada.</u> | 8-K 10.1  | 4/27/2017  |
| <u>10.29#</u> | <u>Employment Agreement, dated as of May 17, 2017, by and among the registrant, Wunderlich Investment Company, Inc. and Gary K. Wunderlich, Jr.</u>   | 8-K 10.2  | 7/5/2017   |
| <u>10.30</u>  | <u>Underwriting Agreement, dated as of May 23, 2017, by and among the registrant, FBR Capital Markets &amp; Co. and B. Riley &amp; Co. LLC as representatives of the several underwriters named therein.</u>  | 8-K 1.1   | 5/24/2017  |
| <u>10.31</u>  | <u>At Market Issuance Sales Agreement, dated as of June 28, 2017, by and between the registrant and FBR Capital Markets &amp; Co.</u>   | 8-K 1.1   | 6/28/2017  |
| <u>10.32</u>  | <u>Warrant Agreement, dated as of July 3, 2017, by and between the registrant and Continental Stock Transfer &amp; Trust Company.</u>   | 8-K 10.1  | 7/5/2017   |
| <u>10.33#</u> | <u>Registration Rights Agreement, dated as of July 3, 2017, by and among the registrant and the persons listed on the signature pages thereto.</u>  | 8-K 10.4  | 7/5/2017   |
| <u>10.34</u>  | <u>Consulting Services Agreement, dated as of July 3, 2017, by and between Richard J. Hendrix and FBR Capital Markets &amp; Co.</u>   | 10-Q10.9  | 8/8/2017   |
| <u>10.35#</u> | <u>Severance Agreement and General Release, dated as of July 3, 2017, by and among the registrant, Richard J. Hendrix, FBR Capital Markets &amp; Co. and B. Riley &amp; Co., LLC.</u>   | 10-Q10.10 | 8/8/2017   |
| <u>10.36</u>  | <u>Underwriting Agreement, dated as of December 6, 2017, by and among the registrant and B. Riley FBR, Inc., as representative of the several underwriters named therein.</u>   | 8-K 1.1   | 12/6/2017  |
| <u>10.37</u>  | <u>At Market Issuance Sales Agreement, dated December 18, 2017, by and between the registrant and B. Riley FBR, Inc.</u>  | 8-K 1.1   | 12/19/2017 |
| <u>10.38#</u> |   | 8-K 10.1  | 1/5/2018   |

Employment Agreement, dated as of January 1, 2018, by and between the registrant and Bryant R. Riley.

|                 |  |                    |
|-----------------|--|--------------------|
| <u>10.39#</u>   | <u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Thomas J. Kelleher.</u>  | 8-K 10.2 1/5/2018  |
| <u>10.40#</u>   | <u>Employment Agreement, dated as of January 1, 2018, by and between Great American Group, LLC. and Andrew Gumaer.</u>   | 8-K 10.3 1/5/2018  |
| <u>10.41#</u>   | <u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Phillip J. Ahn.</u>  | 8-K 10.4 1/5/2018  |
| <u>10.42##*</u> | <u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Alan N. Forman.</u>  |                    |
| <u>10.43</u>    | <u>Debt Conversion and Purchase and Sale Agreement, dated January 12, 2018, by and among B. Riley Financial, Inc., bebe stores, inc. and The Manny Mashouf Living Trust.</u> | 8-K 10.1 1/16/2018 |
| <u>12.1*</u>    | <u>Computation of Ratios of Earnings to Fixed Charges</u>  |                    |
| <u>21.1*</u>    | <u>Subsidiary List</u>   |                    |
| <u>23.1*</u>    | <u>Consent of Marcum LLP</u>   |                    |
| <u>31.1*</u>    | <u>Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934</u>                                    |                    |
| <u>31.2*</u>    | <u>Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934</u>                                    |                    |
| <u>32.1**</u>   | <u>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</u>                     |                    |
| <u>32.2**</u>   | <u>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</u>                     |                    |
| 101.INS*        | XBRL Instance Document   |                    |
| 101.SCH*        | XBRL Taxonomy Extension Schema Document  |                    |
| 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.

\*\*Furnished herewith.

+ 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.

**Item 16. FORM 10-K SUMMARY**

None.

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**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 13, 2018 /s/ PHILLIP J. AHN  
(Phillip J. Ahn, Chief Financial Officer and Chief Operating 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<br>(Bryant R. Riley)       | Chief Executive Officer and Chairman<br>of the Board (Principal Executive Officer)  | March 13, 2018 |
| /s/ PHILLIP J. AHN<br>(Phillip J. Ahn)         | Chief Financial Officer<br>Chief Operating Officer<br>(Principal Financial Officer) | March 13, 2018 |
| /s/ HOWARD E. WEITZMAN<br>(Howard E. Weitzman) | Chief Accounting Officer<br>(Principal Accounting Officer)                          | March 13, 2018 |
| /s/ ROBERT D'AGOSTINO<br>(Robert D'Agostino)   | Director  | March 13, 2018 |
| /s/ ROBERT L. ANTIN<br>(Robert L. Antin)       | Director  | March 13, 2018 |
| /s/ ANDREW GUMAER<br>(Andrew Gumaer)           | Director  | March 13, 2018 |
| /s/ THOMAS J. KELLEHER<br>(Thomas J. Kelleher) | Director  | March 13, 2018 |
| /s/ MICHAEL J. SHELDON<br>(Michael J. Sheldon) | Director  | March 13, 2018 |

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|  |          |                |
|--|----------|----------------|
| /s/ TODD D. SIMS<br>(Todd D. Sims)                       | Director | March 13, 2018 |
| /s/ RICHARD L. TODARO<br>(Richard L. Todaro)             | Director | March 13, 2018 |
| /s/ MIKEL H. WILLIAMS<br>(Mikel H. Williams)             | Director | March 13, 2018 |
| /s/ GARY K. WUNDERLICH, JR.<br>(Gary K. Wunderlich, Jr.) | Director | March 13, 2018 |



**B. RILEY FINANCIAL, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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| <u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u> | F-3         |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of

B. Riley Financial, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of B. Riley Financial, Inc. and Subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the years in the three year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated March 13, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to

those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP

We have served as the Company's auditor since 2009.

Marcum LLP

Melville, NY  
March 13, 2018

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Shareholders and Board of Directors of

B. Riley Financial, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited B. Riley Financial, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets as of December 31, 2017 and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2017 of the Company and our report dated March 13, 2018 expressed an unqualified opinion on those financial statements.

As described in "Management Annual Report on Internal Control over Financial Reporting", management has excluded its subsidiaries, FBR & Co. ("FBR") and Wunderlich Investment Company, Inc. ("Wunderlich"), from its assessment of internal control over financial reporting as of December 31, 2017 because these entities were acquired by the Company in purchase business combinations during 2017. We have also excluded FBR and Wunderlich from our audit of internal control over financial reporting. These subsidiaries' combined total assets and total revenues represent approximately 75.2% and 39.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2017.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

/s/ Marcum llp

Marcum llp

Melville, NY

March 13, 2018

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**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except par value)**

|   | December<br>31,<br>2017 | December<br>31,<br>2016 |
|---|-------------------------|-------------------------|
| Assets  |                         |                         |
| Assets  |                         |                         |
| Cash and cash equivalents   | \$ 132,823              | \$ 112,105              |
| Restricted cash   | 19,711                  | 3,294                   |
| Due from clearing brokers   | 31,479                  | —                       |
| Securities and other investments owned, at fair value   | 145,360                 | 16,579                  |
| Securities borrowed   | 807,089                 | —                       |
| Accounts receivable, net  | 20,015                  | 18,989                  |
| Due from related parties  | 5,689                   | 3,009                   |
| Advances against customer contracts   | 5,208                   | 427                     |
| Prepaid expenses and other assets   | 22,605                  | 5,742                   |
| Property and equipment, net   | 11,977                  | 5,785                   |
| Goodwill  | 98,771                  | 48,903                  |
| Other intangible assets, net  | 56,948                  | 41,166                  |
| Deferred income taxes   | 29,229                  | 8,619                   |
| Total assets  | \$ 1,386,904            | \$ 264,618              |
| Liabilities and Equity  |                         |                         |
| Liabilities   |                         |                         |
| Accounts payable  | \$ 2,650                | \$ 2,703                |
| Accrued expenses and other liabilities  | 71,685                  | 53,168                  |
| Deferred revenue  | 3,141                   | 4,130                   |
| Due to partners   | 1,578                   | 10,037                  |
| Securities sold not yet purchased   | 28,291                  | 846                     |
| Securities loaned   | 803,371                 | —                       |
| Mandatorily redeemable noncontrolling interests   | 4,478                   | 4,019                   |
| Acquisition consideration payable   | —                       | 10,381                  |
| Notes payable   | 2,243                   | —                       |
| Senior notes payable  | 203,621                 | 27,700                  |
| Contingent consideration  | —                       | 1,242                   |
| Total liabilities   | 1,121,058               | 114,226                 |
| Commitments and contingencies   |                         |                         |
| B. Riley Financial, Inc. stockholders' equity:  |                         |                         |
| Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued   | —                       | —                       |
| Common stock, \$0.0001 par value; 40,000,000 shares authorized; 26,569,462 and 19,140,342 issued and outstanding as of December 31, 2017 and December 31, 2016, | 2                       | 2                       |

respectively

|   |             |           |
|---|-------------|-----------|
| Additional paid-in capital                          | 259,980     | 141,170   |
| Retained earnings                                   | 6,582       | 9,887     |
| Accumulated other comprehensive loss                | (534 )      | (1,712 )  |
| Total B. Riley Financial, Inc. stockholders' equity | 266,030     | 149,347   |
| Noncontrolling interests                            | (184 )      | 1,045     |
| Total equity  | 265,846     | 150,392   |
| Total liabilities and equity                        | \$1,386,904 | \$264,618 |

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

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**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Dollars in thousands, except share data)**

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2017                    | 2016       | 2015       |
| Revenues:   |                         |            |            |
| Services and fees                                   | \$304,841               | \$164,235  | \$101,929  |
| Interest income - Securities lending                | 17,028                  | —          | —          |
| Sale of goods                                       | 307                     | 26,116     | 10,596     |
| Total revenues                                      | 322,176                 | 190,351    | 112,525    |
| Operating expenses:                                 |                         |            |            |
| Direct cost of services                             | 55,501                  | 40,857     | 29,049     |
| Cost of goods sold                                  | 398                     | 14,755     | 3,072      |
| Selling, general and administrative expenses        | 213,008                 | 82,127     | 58,322     |
| Restructuring charge                                | 12,374                  | 3,887      | —          |
| Interest expense - Securities lending               | 12,051                  | —          | —          |
| Total operating expenses                            | 293,332                 | 141,626    | 90,443     |
| Operating income                                    | 28,844                  | 48,725     | 22,082     |
| Other income (expense):                             |                         |            |            |
| Interest income                                     | 420                     | 318        | 17         |
| Loss from equity investment                         | (437)                   | ) —        | —          |
| Interest expense                                    | (8,382)                 | ) (1,996)  | ) (834)    |
| Income before income taxes                          | 20,445                  | 47,047     | 21,265     |
| Provision for income taxes                          | (8,510)                 | ) (14,321) | ) (7,688)  |
| Net income  | 11,935                  | 32,726     | 13,577     |
| Net income attributable to noncontrolling interests | 379                     | 11,200     | 1,772      |
| Net income attributable to B. Riley Financial, Inc. | \$11,556                | \$21,526   | \$11,805   |
| Basic income per share                              | \$0.50                  | \$1.19     | \$0.73     |
| Diluted income per share                            | \$0.48                  | \$1.17     | \$0.73     |
| Cash dividends per share                            | \$0.67                  | \$0.28     | \$0.32     |
| Weighted average basic shares outstanding           | 23,181,388              | 18,106,621 | 16,221,040 |
| Weighted average diluted shares outstanding         | 24,290,904              | 18,391,852 | 16,265,915 |

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

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Dollars in thousands)**

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2017                    | 2016      | 2015      |
| Net income  | \$ 11,935               | \$ 32,726 | \$ 13,577 |
| Other comprehensive income (loss):                            |                         |           |           |
| Change in cumulative translation adjustment                   | 1,178                   | (654 )    | (410 )    |
| Other comprehensive income (loss), net of tax                 | 1,178                   | (654 )    | (410 )    |
| Total comprehensive income                                    | 13,113                  | 32,072    | 13,167    |
| Comprehensive income attributable to noncontrolling interests | 379                     | 11,200    | 1,772     |
| Comprehensive income attributable to B. Riley Financial, Inc. | \$ 12,734               | \$ 20,872 | \$ 11,395 |

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

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY****(Dollars in thousands)**

|  | Preferred<br>Stock<br>Shares | Common<br>Stock<br>Shares | Amount<br>Capital | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Equity |
|--|------------------------------|---------------------------|-------------------|----------------------------------|-----------------------------------|---|-----------------------------|-----------------|
| Balance, January 1, 2015   | —                            | 15,968,607                | \$ 2              | \$ 110,598                       | \$(12,891)                        | \$(648)                                       | \$ 18                       | \$97,079        |
| Issuance of common stock for acquisition of MK Capital Advisors, LLC and contingent equity consideration on February 2, 2015 | —                            | 333,333                   | —                 | 4,657                            | —                                 | —   | —                           | 4,657           |
| Vesting of restricted stock, net of shares withheld for employer taxes   | —                            | 146,179                   | —                 | (499)                            | —                                 | —   | —                           | (499)           |
| Share based payments   | —                            | —                         | —                 | 2,043                            | —                                 | —   | —                           | 2,043           |
| Dividends on common stock  | —                            | —                         | —                 | —                                | (5,219)                           | —   | —                           | (5,219)         |
| Net income   | —                            | —                         | —                 | —                                | 11,805                            | —   | 1,772                       | 13,577          |
| Distributions to noncontrolling interests  | —                            | —                         | —                 | —                                | —                                 | —   | (1,908)                     | (1,908)         |
| Foreign currency translation adjustment  | —                            | —                         | —                 | —                                | —                                 | (410)   | —                           | (410)           |
| Balance, December 31, 2015   | —                            | 16,448,119                | \$ 2              | \$ 116,799                       | \$(6,305)                         | \$(1,058)                                     | \$(118)                     | \$109,320       |
| Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2016            | —                            | 166,667                   | —                 | —                                | —                                 | —   | —                           | —               |
| Vesting of restricted stock, net of shares withheld for employer taxes   | —                            | 104,576                   | —                 | (1,156)                          | —                                 | —   | —                           | (1,156)         |
| Offering of common stock, net of offering expenses   | —                            | 2,420,980                 | —                 | 22,759                           | —                                 | —   | —                           | 22,759          |

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|   |     |   |            |       |            |          |             |           |            |
|---|-----|---|------------|-------|------------|----------|-------------|-----------|------------|
| Share based payments  | —   | — | —          | 2,768 | —          | —        | —           | 2,768     |            |
| Dividends on common stock   | —   | — | —          | —     | (5,334 )   | —        | —           | (5,334 )  |            |
| Net income  | —   | — | —          | —     | 21,526     | —        | 1,163       | 22,689    |            |
| Foreign currency translation adjustment   | —   | — | —          | —     | —          | (654 )   | —           | (654 )    |            |
| Balance, December 31, 2016  | —\$ | — | 19,140,342 | \$ 2  | \$ 141,170 | \$ 9,887 | \$ (1,712 ) | \$ 1,045  | \$ 150,392 |
| Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2017 | —   | — | 166,666    | —     | 1,151      | —        | —           | —         | 1,151      |
| Issuance of common stock for acquisition of Dialectic general partner interests on April 13, 2017                 | —   | — | 158,484    | —     | 1,952      | —        | —           | —         | 1,952      |
| Issuance of common stock for acquisition of FBR & Co. on June 1, 2017   | —   | — | 4,779,354  | —     | 73,471     | —        | —           | —         | 73,471     |
| Issuance of common stock and common stock warrants for acquisition of Wunderlich on July 3, 2017                  | —   | — | 1,974,812  | —     | 35,381     | —        | —           | —         | 35,381     |
| Vesting of restricted stock, net of shares withheld for employer taxes  | —   | — | 349,804    | —     | (3,486 )   | —        | —           | —         | (3,486 )   |
| Share based payments  | —   | — | —          | —     | 10,341     | —        | —           | —         | 10,341     |
| Dividends on common stock   | —   | — | —          | —     | —          | (14,861) | —           | —         | (14,861 )  |
| Net income  | —   | — | —          | —     | —          | 11,556   | —           | (307 )    | 11,249     |
| Distributions to noncontrolling interests   | —   | — | —          | —     | —          | —        | —           | (922 )    | (922 )     |
| Foreign currency translation adjustment   | —   | — | —          | —     | —          | —        | 1,178       | —         | 1,178      |
| Balance, December 31, 2017  | —\$ | — | 26,569,462 | \$ 2  | \$ 259,980 | \$ 6,582 | \$ (534 )   | \$ (184 ) | \$ 265,846 |

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

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)**

|  | Year ended December 31, |           |          |
|--|-------------------------|-----------|----------|
|  | 2017                    | 2016      | 2015     |
| Cash flows from operating activities:  |                         |           |          |
| Net income   | \$11,935                | \$32,726  | \$13,577 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities:                        |                         |           |          |
| Depreciation and amortization  | 11,140                  | 4,306     | 848      |
| Provision for doubtful accounts  | 1,066                   | 710       | 718      |
| Share-based compensation   | 10,341                  | 2,768     | 2,043    |
| Recovery of key man life insurance   | (6,000 )                | —         | —        |
| Non-cash interest and other  | 456                     | 136       | 163      |
| Effect of foreign currency on operations   | (769 )                  | 973       | (375 )   |
| Loss from equity investment  | 437                     | —         | —        |
| Deferred income taxes  | 5,729                   | 3,549     | 6,609    |
| Impairment of leaseholds and other, lease loss accrual and loss on disposal of fixed assets                        | 3,602                   | —         | 40       |
| Income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests                     | 10,799                  | 3,032     | 2,207    |
| Change in operating assets and liabilities:  |                         |           |          |
| Due from clearing brokers  | 3,359                   | —         | —        |
| Securities and other investments owned   | (82,143 )               | 8,964     | (7,588 ) |
| Securities borrowed  | 47,595                  | —         | —        |
| Accounts receivable and advances against customer contracts  | 1,614                   | (1,847 )  | 11,540   |
| Goods held for sale or auction   | 213                     | 37        | 20       |
| Prepaid expenses and other assets  | (1,719 )                | 3,662     | (1,100 ) |
| Accounts payable, accrued payroll and related expenses, accrued value added tax payable and other accrued expenses | (30,374 )               | 23,330    | 3,943    |
| Amounts due from related parties and partners  | (11,826 )               | (2,766 )  | (622 )   |
| Securities sold, not yet purchased   | 7,678                   | 133       | (33 )    |
| Deferred revenue   | (668 )                  | 884       | 346      |
| Securities loaned  | (64,255 )               | —         | —        |
| Auction and liquidation proceeds payable   | —                       | (317 )    | (665 )   |
| Net cash (used in) provided by operating activities  | (81,790 )               | 80,280    | 31,671   |
| Cash flows from investing activities:  |                         |           |          |
| Acquisition of Wunderlich, net of cash acquired \$4,259  | (25,478 )               | —         | —        |
| Cash acquired from acquisition of FBR & Co.  | 15,738                  | —         | —        |
| Acquisition of United Online, net of cash acquired \$125,542 in 2016   | (10,381 )               | (33,430 ) | —        |
| Acquisition of other businesses, net of cash acquired  | (2,052 )                | —         | (2,451 ) |
| Purchases of property and equipment  | (825 )                  | (729 )    | (239 )   |

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|  |           |           |          |
|--|-----------|-----------|----------|
| Proceeds from key man life insurance                                 | 6,000     | —         | —        |
| Proceeds from sale of property and equipment and intangible asset    | 836       | 96        | 4        |
| Equity investment  | (1,674 )  | —         | —        |
| (Increase) decrease in restricted cash                               | (15,786 ) | (2,809 )  | 7,604    |
| Net cash (used in) provided by investing activities                  | (33,622 ) | (36,872 ) | 4,918    |
| Cash flows from financing activities:                                |           |           |          |
| Repayment of revolving line of credit                                | —         | (272 )    | 216      |
| Proceeds from asset based credit facility                            | 65,987    | 56,255    | —        |
| Repayment of asset based credit facility                             | (65,987 ) | (56,255 ) | (18,506) |
| Proceeds of notes payable - related party                            | —         | —         | 4,500    |
| Repayment of notes payable - related party                           | —         | —         | (4,500 ) |
| Repayment of notes payable   | (8,336 )  | —         | —        |
| Proceeds from participating note payable                             | —         | 61,400    | —        |
| Repayment of participating note payable and contingent consideration | (1,250 )  | (62,650 ) | —        |
| Proceeds from issuance of senior notes                               | 179,471   | 27,664    | —        |
| Payment of debt issuance costs                                       | (4,289 )  | —         | —        |
| Proceeds from issuance of common stock                               | —         | 22,759    | —        |
| Payment of employment taxes on vesting of restricted stock           | (3,486 )  | (1,156 )  | (499 )   |
| Dividends paid   | (16,755 ) | (5,334 )  | (5,219 ) |
| Distribution to noncontrolling interests                             | (11,261 ) | (2,007 )  | (4,042 ) |
| Net cash provided by (used in) financing activities                  | 134,094   | 40,404    | (28,050) |
| Increase in cash and cash equivalents                                | 18,682    | 83,812    | 8,539    |
| Effect of foreign currency on cash                                   | 2,036     | (1,719 )  | (127 )   |
| Net increase in cash and cash equivalents                            | 20,718    | 82,093    | 8,412    |
| Cash and cash equivalents, beginning of year                         | 112,105   | 30,012    | 21,600   |
| Cash and cash equivalents, end of year                               | \$132,823 | \$112,105 | \$30,012 |
| Supplemental disclosures:  |           |           |          |
| Interest paid  | \$18,840  | \$376     | \$579    |
| Taxes paid   | \$14,986  | \$685     | \$1,688  |

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

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

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

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

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

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

B. Riley Financial, Inc. and its subsidiaries (collectively the “Company”) provide investment banking and financial services to corporate, institutional and high net worth clients, and 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, Australia, Canada, and Europe, and with the acquisition of United Online, Inc. (“UOL”) on July 1, 2016, provide consumer Internet access and related subscription services.

The Company operates in four operating segments: (i) Capital Markets, through which the Company provides investment banking, corporate finance, securities lending, restructuring, research, sales and trading and wealth management services to corporate, institutional and high net worth clients; (ii) Auction and Liquidation, through which the Company provides auction and liquidation services to help clients dispose of assets that include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property; (iii) Valuation and Appraisal, through which the Company provides valuation and appraisal services to clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs; and (iv) Principal Investments - United Online, through which the Company provides consumer Internet access and related subscription services.

On November 9, 2017, the Company entered into an Agreement and Plan of Merger with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the Company (“Merger Sub”), and magicJack VocalTec Ltd., an Israeli corporation (“magicJack”), pursuant to which Merger Sub will merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Subject to the terms and conditions of the Agreement and Plan of Merger, each outstanding share of magicJack will be converted into the right to receive \$8.71 in cash without interest, representing approximately \$143,500 in aggregate merger consideration. The closing of the transaction is subject to the receipt of certain regulatory approvals, the approval of the magicJack shareholder’s and the satisfaction of other closing conditions. It is anticipated that the acquisition of magicJack will close in the first half of 2018.

## 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 (a) 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, and (b) GA Retail Investments, L.P. which is controlled by the Company as a result of its ownership of a 50% partnership interest, appointment of executive officers and significant influence over the operations. All intercompany accounts and transactions have been eliminated upon consolidation. In the opinion of the Company's management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included.

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.

### *(b) Use of Estimates*

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of American ("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, the carrying value of intangible assets and goodwill, the fair value of mandatorily redeemable noncontrolling interests, fair value of share based arrangements, fair value of contingent consideration in business combination's 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, investment banking, restructuring and wealth management services; (ii) revenues from sales and trading activities; and (iii) interest income from securities lending 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.

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

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

Revenues from securities lending activities consist of interest income from equity and fixed income securities that are borrowed from one party and loaned to another. The Company maintains relationships with a broad group of banks and broker-dealers to facilitate the sourcing, borrowing and lending of equity and fixed income securities in a "matched book" to limit the Company's exposure to fluctuations in the market value of securities borrowed and securities loaned.

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.

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.

Revenues earned from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation are recognized based on proceeds received. The Company records proceeds received from these types of engagements first as a reduction of contractual reimbursable expenses, second as a recovery of its guarantee and thereafter as revenue, subject to such revenue meeting the criteria of having been fixed or determinable. Contractual reimbursable expenses and amounts advanced to customers for minimum guarantees are initially recorded as advances against customer contracts in the accompanying consolidated balance sheets. If, during the auction or liquidation sale, the Company determines that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, the Company accrues a loss on the contract in the period that the loss becomes known.

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

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

Fees earned from 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 in the Principal Investments - United Online segment are primarily comprised of services revenues, which are derived primarily from fees charged to pay accounts; advertising and other revenues; and products revenues, which are derived primarily from the sale of mobile broadband service devices, including the related shipping and handling fees.

Service revenues are derived primarily from fees charged to pay accounts and are recognized in the period in which fees are fixed or determinable and the related services are provided to the customer. The Company's pay accounts generally pay in advance for their services by credit card, PayPal, automated clearinghouse or check, and revenues are then recognized ratably over the service period. Advance payments from pay accounts are recorded in the consolidated balance sheet as deferred revenue. In circumstances where payment is not received in advance, revenues are only recognized if collectability is reasonably assured.

Advertising revenues consist primarily of amounts from the Company's Internet search partner that are generated as a result of users utilizing the partner's Internet search services and amounts generated from display advertisements. The Company recognizes such advertising revenues in the period in which the advertisement is displayed or, for performance-based arrangements, when the related performance criteria are met. In determining whether an arrangement exists, the Company ensures that a written contract is in place, such as a standard insertion order or a customer-specific agreement. The Company assesses whether performance criteria have been met and whether the fees are fixed or determinable based on a reconciliation of the performance criteria and the payment terms associated with the transaction. The reconciliation of the performance criteria generally includes a comparison of customer-provided performance data to the contractual performance obligation and to internal or third-party

performance data in circumstances where that data is available.

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, 2017, 2016 and 2015.

*(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 in the Principal Investments - United Online segment include cost of telecommunications and data center costs, personnel and overhead-related costs associated with operating the Company's networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billing and processing of customer credit cards and associated bank fees. Direct cost of services does not include an allocation of the Company's overhead costs.

**(e) Interest Expense - Securities Lending Activities**

Interest expense from securities lending activities is included in operating expenses related to operations in the Capital Markets segment. Interest expense from securities lending activities is incurred from equity and fixed income securities that are loaned to the Company.

**(f) Concentration of Risk**

Revenues from one liquidation service contract to a retailer represented 13.5% of total revenues during the year ended December 31, 2016. Revenues in the Capital Markets, Auction and Liquidation, Valuation and Appraisal and Principal Investments - United Online segment are primarily generated in the United States, Australia, Canada 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.

**(g) Advertising Expense**

The Company expenses advertising costs, which consist primarily of costs for printed materials, as incurred. Advertising costs totaled \$1,312, \$1,456 and \$519 for the years ended December 31, 2017, 2016 and 2015, respectively. Advertising expense is included as a component of selling, general and administrative expenses in the

accompanying consolidated statements of income.

***(h) 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.

***(i) 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.

The Company recognizes tax benefits from uncertain tax positions 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. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements. 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 Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, provides an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creates new taxes on certain foreign sourced earnings. As of the completion of these financial statements and related disclosures, we have not completed our accounting for the tax effects of the Tax Act; however, as described below, we have made a reasonable estimate of such effects and recorded a provisional tax expense of \$13,052, which is included as a component of income tax expense in the fourth quarter of 2017. This provisional tax expense incorporates assumptions made based upon the Company’s current interpretation of the Tax Act, and may change as we receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves. In accordance with SEC Staff Accounting Bulletin No. 118, the Company will finalize the accounting for the effects of the Tax Act no later than the fourth quarter of 2018. Future adjustments made to the provisional effects will be reported as a component of income tax expense from continuing operations in the reporting period in which any such adjustments are determined. See Note 13 for additional information.

***(j) Cash and Cash Equivalents***

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

***(k) Restricted Cash***

As of December 31, 2017, restricted cash of \$19,711 included \$19,197 of cash collateral related to certain retail liquidation engagements and \$514 cash segregated in a special bank accounts for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication suppliers. As of December 31, 2016, restricted cash of \$3,294 included \$1,440 of cash collateral related to a retail liquidation engagement in Australia, \$1,320 of cash collateral for foreign exchange contracts and \$534 cash segregated in a special bank accounts for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication suppliers.

***(l) Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are recorded based upon the amount of cash advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the

market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained, or excess collateral recalled, when deemed appropriate.

The Company accounts for securities lending transactions in accordance with Accounting Standards Codification (“ASC”) “*Topic 210: Balance Sheet*,” which requires companies to report disclosures of offsetting assets and liabilities. The Company does not net securities borrowed and securities loaned and these items are presented on a gross basis in the condensed consolidated balance sheets.

***(m) Due from/to Brokers, Dealers, and Clearing Organizations***

The Company clears all of its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The amount receivable from or payable to the clearing brokers represents the net of proceeds from unsettled securities sold, the Company’s clearing deposit and amounts receivable for commissions less amounts payable for unsettled securities purchased by the Company and amounts payable for clearing costs and other settlement charges. This amount also includes the cash collateral received for securities loaned less cash collateral for securities borrowed. Any amounts payable would be fully collateralized by all of the securities owned by the Company and held on deposit at the clearing broker.

***(n) Accounts Receivable***

Accounts receivable represents amounts due from the Company’s auction and liquidation, valuation and appraisal, capital markets and principal investments - United Online 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 \$1,066, \$710 and \$718 for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.



***(o) 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.

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

Securities owned consists of marketable securities and investments in partnership interests and other 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, 2017 and 2016, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following:

|   | December<br>31,<br>2017 | December<br>31,<br>2016 |
|---|-------------------------|-------------------------|
| Securities and other investments owned: |                         |                         |
| Common stocks and warrants              | \$67,306                | \$ 2,084                |
| Corporate bonds                         | 6,539                   | 1,025                   |
| Fixed income securities                 | 2,329                   | —                       |
| Loans receivable                        | 33,713                  | —                       |
| Partnership interests and other         | 35,473                  | 13,470                  |
|   | \$145,360               | \$ 16,579               |

|                                    |           |        |
|------------------------------------|-----------|--------|
| Securities sold not yet purchased: |           |        |
| Common stocks                      | \$ 19,145 | \$ —   |
| Corporate bonds                    | 1,175     | 846    |
| Fixed income securities            | 699       | —      |
| Partnership interests and other    | 7,272     | —      |
|                                    | \$ 28,291 | \$ 846 |

***(r) 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 the excess of the purchase price over the fair value of net assets acquired in a business combination. ASC 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 four 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. Based on the Company's qualitative assessments during 2017, 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, 2017.

*(s) 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. 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 Company's securities and other investments owned and securities sold and not yet purchased are comprised of common and preferred stocks and warrants, corporate bonds, loans receivable and investments in partnerships. Investments in common stocks that are based on quoted prices in active markets are included in Level 1 of the fair value hierarchy. The Company also holds nonpublic common and preferred stocks and warrants for which there is little or no public market and fair value is determined by management on a consistent basis. For investments where little or no public market exists, management's determination of fair value is based on the best available information which may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration various factors including earnings history, financial condition, recent sales prices of the issuer's securities and liquidity risks. These investments are included in Level 3 of the fair value hierarchy. Investments in partnership interests include investments in private equity partnerships that primarily invest in equity securities, bonds, and direct lending funds. The Company's partnership interests are valued based on the Company's proportionate share of the net assets of the partnership which is derived from the most recent statements received from the general partner which are included in Level 2 of the fair value hierarchy. The Company also invests in certain proprietary investment funds that are valued at net asset value ("NAV") determined by the fund administrator. The underlying securities held by these investment companies are primarily corporate and asset-backed fixed income securities and restrictions exist on the redemption of amounts invested by the Company. As a practical expedient, the Company relies on the NAV of these investments as their fair value. The NAVs that have been provided by the fund administrators are derived from the fair values of the underlying investments as of the reporting date. In accordance with ASC *"Topic 820: Fair Value Measurements,"* these investment funds are not categorized within the fair value hierarchy.

The fair value of mandatorily redeemable noncontrolling interests is determined 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 following tables present information on the financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2017 and 2016.

|   | Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2017, Using |  |  |  |
|---|--|--|--|--|
|   | Fair value at December 31, 2017  | <b>Quoted prices active markets identical assets (Level 1)</b> | <b>Other observable inputs (Level 2)</b> | <b>Significant unobservable inputs (Level 3)</b> |
| <b>Assets:</b>  |  |  |  |  |
| <b>Securities and other investments owned:</b>                                |  |  |  |  |
| Common stocks and warrants  | \$67,306   | \$38,960   | \$ —                                     | \$ 28,346  |
| Corporate bonds   | 6,539  | —  | 6,539                                    | —  |
| Fixed income securities   | 2,329  | —  | 2,329                                    | —  |
| Loans receivable  | 33,713   | —  | —  | 33,713   |
| Partnership interests and other   | 31,883   | 686  | 5,093                                    | 26,104   |
| <b>Total assets measured at fair value</b>                                    | <b>\$141,770</b>   | <b>\$39,646</b>  | <b>\$ 13,961</b>                         | <b>\$ 88,163</b>                                 |
| <b>Liabilities:</b>   |  |  |  |  |
| <b>Securities sold not yet purchased:</b>                                     |  |  |  |  |
| Common stocks   | \$19,145   | \$19,145   | \$ —                                     | \$ —   |
| Corporate bonds   | 1,175  | —  | 1,175                                    | —  |
| Fixed income securities   | 699  | —  | 699                                      | —  |
| Partnership interests and other   | 7,272  | 7,272  | —  | —  |
| <b>Total securities sold not yet purchased</b>                                | <b>28,291</b>  | <b>26,417</b>  | <b>1,874</b>                             | <b>—</b>   |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | 4,478  | —  | —  | 4,478  |
| <b>Total liabilities measured at fair value</b>                               | <b>\$32,769</b>  | <b>\$26,417</b>  | <b>\$ 1,874</b>                          | <b>\$ 4,478</b>                                  |

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2016, Using

| Fair value at December 31, 2016 | Quoted prices active markets identical | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---------------------------------|--|-----------------------------------|---|
|---------------------------------|--|-----------------------------------|---|

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|  | assets<br>(Level<br>1) |          |        |           |
|--|------------------------|----------|--------|-----------|
| Assets:  |                        |          |        |           |
| Securities and other investments owned:  |                        |          |        |           |
| Common stocks  | \$2,084                | \$ 1,785 | \$ —   | \$ 299    |
| Corporate bonds  | 1,025                  | —        | 865    | 160       |
| Partnership interests  | 13,470                 | —        | 44     | 13,426    |
| Total assets measured at fair value  | \$16,579               | \$ 1,785 | \$ 909 | \$ 13,885 |
| Liabilities:   |                        |          |        |           |
| Securities sold not yet purchased:   |                        |          |        |           |
| Corporate bonds  | \$846                  | \$ —     | \$ 846 | \$ —      |
| Mandatorily redeemable noncontrolling interests issued after<br>November 5, 2003 | 3,214                  | —        | —      | 3,214     |
| Contingent consideration   | 1,242                  | —        | —      | 1,242     |
| Total liabilities measured at fair value   | \$5,302                | \$ —     | \$ 846 | \$ 4,456  |

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As of December 31, 2017, securities and other investments owned included \$3,590 of investment funds valued at NAV per share as a practical expedient. As such, total securities and other investments owned of \$145,360 in the consolidated balance sheets at December 31, 2017 included investments in investment funds of \$3,590 and securities and other investments owned in the amount of \$141,770 as outlined in the fair value table above.

As of December 31, 2017 and December 31, 2016, financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were \$88,163 and \$13,885, respectively, or 6.4% and 5.2%, respectively, of the Company's total assets. In determining the fair value for these Level 3 financial assets, the Company analyzes various financial, performance and market factors to estimate the value, including where applicable, over-the-counter market trading activity.

The changes in Level 3 fair value hierarchy during the year ended December 31, 2017 and 2016 is as follows:

|   | Level 3                      |                        | Level 3 Changes During the Year    |                                  |                                   | Level 3 Balance at End of Year |
|---|------------------------------|------------------------|------------------------------------|----------------------------------|-----------------------------------|--------------------------------|
|   | Balance at Beginning of Year | Fair Value Adjustments | Relating to Undistributed Earnings | Purchases, Sales and Settlements | Transfer in and/or out of Level 3 |                                |
| <b>Year Ended December 31, 2017</b>   |                              |                        |                                    |                                  |                                   |                                |
| Common stocks and warrants  | \$ 299                       | \$3,028                | \$ 3,419                           | \$ 21,600                        | \$ —                              | \$28,346                       |
| Corporate bonds   | 160                          | —                      | —                                  | —                                | (160 )                            | —                              |
| Loans receivable  | —                            | 1,447                  | —                                  | 32,266                           | —                                 | 33,713                         |
| Partnership interests and other   | 13,426                       | 3,465                  | —                                  | 9,213                            | —                                 | 26,104                         |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | 3,214                        | 9,000                  | (8,542 )                           | —                                | 806                               | 4,478                          |
| Contingent consideration  | 1,242                        | 8                      | —                                  | (1,250 )                         | —                                 | —                              |
| <b>Year Ended December 31, 2016</b>   |                              |                        |                                    |                                  |                                   |                                |
| Common stocks   | \$ 290                       | \$ —                   | \$ —                               | \$ 9                             | \$ —                              | \$299                          |
| Corporate bonds   | —                            | —                      | —                                  | 160                              | —                                 | 160                            |
| Partnership interests   | 1,766                        | 2,294                  | 1,366                              | 8,000                            | —                                 | 13,426                         |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | 2,330                        | 800                    | 84                                 | —                                | —                                 | 3,214                          |
| Contingent consideration  | 2,391                        | 101                    | —                                  | (1,250 )                         | —                                 | 1,242                          |

The fair value adjustment for contingent consideration of \$8 and \$101 represents imputed interest for the years ended December 31, 2017 and 2016, respectively. The Company had a triggering event in 2017 for the mandatorily redeemable noncontrolling interests that resulted in a fair value adjustment of \$7,850 of the total fair value adjustment

of \$9,000 for the year ended December 31, 2017. In connection with this event, the Company received proceeds of \$6,000 from key man life insurance. These amounts have been recorded in the consolidated statements of income in Selling, general and administrative expenses in the corporate segment. The amount reported in the table above also for the years ended December 31, 2017 and 2016 includes the amount of undistributed earnings attributable to the noncontrolling interests that is distributed on a quarterly basis.

The carrying amounts reported in the consolidated financial statements for cash, restricted cash, accounts receivable, accounts payable, accrued payroll and related, accrued value added tax, income taxes payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturity of these instruments.

The carrying amount of the senior notes payable approximates 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.

During the years ended December 31, 2017, 2016 and 2015, there were no assets or liabilities measured at fair value on a non-recurring basis.

***(t) Derivative and Foreign Currency Translation***

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain auction and liquidation engagements with operations outside the United States. During the year ended December 31, 2017, the Company's use of derivative consisted of the purchase of forward exchange contracts (a) in the amount of \$8,000 Australian dollars that was settled on March 31, 2017; (b) in the amount of \$27,100 Canadian dollars, of which \$20,703 remained open at December 31, 2017 and will settle in 2018, and (b) \$1,500 Euro's that will settle in 2018. During the year ended December 31, 2016, the Company's use of derivatives consisted of the purchase of forward exchange contracts (a) in the amount of \$10,200 Canadian dollars that was settled at various periods prior to August 31, 2016, (b) 5,600 Euro's that was settled on December 30, 2016 and (c) \$20,000 Australian dollars that was settled on December 30, 2016 and another \$25,000 Australian dollars that was settled on January 31, 2017.



The forward exchange contract was entered into to improve the predictability of cash flows related to a retail store liquidation engagement that was completed in December 2016. The net gain from forward exchange contracts was \$31 and \$13 during the years ended December 31, 2017 and 2015, respectively. The net loss from forward exchange contracts was \$117 during the years ended December 31, 2016. This amount is reported as a component of Selling, general and administrative expenses in the consolidated statements of income.

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. 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 \$786, \$848 and \$271 during the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are included in selling, general and administrative expenses in our consolidated statements of income.

**(u) Common Stock Warrants**

The Company issued 821,816 warrants to purchase common stock of the Company in connection with the acquisition of Wunderlich on July 3, 2017. The common stock warrants entitle the holders of the warrants to acquire shares of the Company's common stock from the Company at a price of \$17.50 per share (the "Exercise Price"), subject to, among other matters, the proper completion of an exercise notice and payment. The Exercise Price and the number of shares of Company common stock issuable upon exercise are subject to customary anti-dilution and adjustment provisions, which include stock splits, subdivisions or reclassifications of the Company's common stock. The common stock warrants expire on July 3, 2022.

**(v) Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2016-02: *Leases (Topic 842)* ("ASU 2016-02"). The amendments in this update require lessees, among other things, to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous authoritative guidance. This update also introduces new disclosure requirements for leasing arrangements. ASU 2016-02 will be effective for the Company in fiscal year 2019, but early application is permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that provides for the reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Cuts and Jobs Act of 2017. The accounting update is effective for the fiscal year beginning after December 15, 2018 and early adoption is permitted. The accounting update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act of 2017 is recognized. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)*, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for us in our first quarter of fiscal year 2019, but early application is 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.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*. This standard simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has not yet adopted this update and currently evaluating the effect this new standard will have on its financial condition and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* which has subsequently been amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a 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 the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. A full retrospective or modified retrospective approach is required. In addition, the new guidance will require enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition.

The Company has elected to apply the modified retrospective method and the impact was determined to be immaterial on the consolidated financial statements. Accordingly, the new revenue standard will be applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect

during those historical periods.

The Company has performed an analysis and identified its revenues and costs that are within the scope of the new guidance. The Company anticipates that its current methods of recognizing revenues will not be significantly impacted by the new guidance. In addition, there may be certain situations where advisory fees are deferred and not recognized, dependent upon performance obligations and other situations that will result in the acceleration of the recognition of revenue on retail liquidation engagements that contain performance-based arrangements if certain predefined outcomes occur. The scope of the accounting update does not apply to revenue associated with financial instruments, and as a result, will not have an impact on the elements of our consolidated statements of operations most closely associated with our secured lending business and proprietary trading income which includes interest income, proprietary trading income and interest expense. The adoption of the accounting update will not have a material impact on the Company's consolidated financial statements.

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**NOTE 3— ACQUISITIONS***Acquisition of Wunderlich Investment Company, Inc.*

On May 17, 2017, the Company entered into a Merger Agreement (the “Wunderlich Merger Agreement”) with Wunderlich, a Delaware Corporation. Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. In connection with the Wunderlich acquisition on July 3, 2017, the total consideration of \$65,118 paid to Wunderlich shareholders was comprised of (a) cash in the amount of \$29,737; (b) 1,974,812 newly issued shares of the Company’s common stock at closing which were valued at \$31,495 for accounting purposes determined based on the closing market price of the Company’s shares of common stock on the acquisition date on July 3, 2017, less a 13.0% discount for lack of marketability as the shares issued are subject to certain escrow provisions and restrictions that limit their trade or transfer; and (c) 821,816 newly issued common stock warrants with an estimated fair value of \$3,886. The common stock and common stock warrants issued includes 387,365 common shares and 167,352 common stock warrants that are held in escrow and subject to forfeiture to indemnify the Company for certain representations and warranties in connection with the acquisition. The Company believes that the acquisition of Wunderlich will allow the Company to benefit from wealth management, investment banking, corporate finance, and sales and trading services provided by Wunderlich. The acquisition of Wunderlich is accounted for using the purchase method of accounting. The Company also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017 for the shares issued in connection with the Wunderlich Merger Agreement. The Registration Rights Agreement provides the Wunderlich shareholders with the right to notice of and, subject to certain conditions, the right to register shares of the Company’s common stock in certain future registered offerings of shares of the Company’s common stock.

The assets and liabilities of Wunderlich, both tangible and intangible, were recorded at their estimated fair values as of the July 3, 2017, acquisition date for Wunderlich. The application of the purchase method of accounting resulted in goodwill of \$34,638 which represents the benefits from synergies with our existing business and acquired workforce. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of Wunderlich, were charged against earnings in the amount of \$48 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2017. The preliminary purchase accounting for the acquisition has been accounted for as a stock purchase with all of the recognized goodwill is expected to be non-deductible for tax purposes.

The preliminary purchase price allocation was as follows:

|   |          |
|---|----------|
| Consideration paid by B. Riley:                       |          |
| Cash paid   | \$29,737 |
| Fair value of 1,974,812 B. Riley common shares issued | 31,495   |

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|   |          |
|---|----------|
| Fair value of 821,816 B. Riley common stock warrants issued | 3,886    |
| Total consideration   | \$65,118 |

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|  |          |
|--|----------|
| Tangible assets acquired and assumed:  |          |
| Cash and cash equivalents              | \$4,259  |
| Securities owned                       | 1,413    |
| Accounts receivable                    | 3,193    |
| Due from clearing broker               | 15,133   |
| Prepaid expenses and other assets      | 10,103   |
| Property and equipment                 | 2,315    |
| Deferred taxes                         | 7,568    |
| Accounts payable                       | (1,718 ) |
| Accrued payroll and related expenses   | (6,387 ) |
| Accrued expenses and other liabilities | (9,773 ) |
| Securities sold, not yet purchased     | (1,707 ) |
| Notes payable                          | (10,579) |
| Customer relationships                 | 15,320   |
| Trademarks                             | 1,340    |
| Goodwill                               | 34,638   |
| Total                                  | \$65,118 |

The revenue and loss of Wunderlich included in our consolidated financial statements for the period from July 3, 2017 (the date of acquisition) through December 31, 2017 were \$41,491 and \$2,283, respectively. The loss from Wunderlich of \$2,283 includes a restructuring charge in the amount of \$1,471 related primarily to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

#### ***Acquisition of FBR & Co.***

On February 17, 2017, the Company entered into an Agreement and Plan of Merger (the “FBR Merger Agreement”) with FBR, pursuant to which FBR was to merge with and into the Company (or a subsidiary of the Company), with the Company (or its subsidiary) as the surviving corporation (the “Merger”). On May 1, 2017, the Company and FBR filed a registration statement for the planned Merger. The stockholders of the Company and FBR approved the acquisition on June 1, 2017, customary closing conditions were satisfied and the acquisition was completed on June 1, 2017. Subject to the terms and conditions of the FBR Merger Agreement, each outstanding share of FBR common stock (“FBR Common Stock”) was converted into the right to receive 0.671 of a share of the Company’s common stock as summarized below. The Company believes that the acquisition of FBR will allow the Company to benefit from investment banking, corporate finance, securities lending, research, and sales and trading services provided by FBR and planned synergies from the elimination of duplicate corporate overhead and management functions with the Company. The acquisition of FBR is accounted for using the purchase method of accounting.

The assets and liabilities of FBR, both tangible and intangible, were recorded at their estimated fair values as of the June 1, 2017 acquisition date for FBR. The application of the purchase method of accounting resulted in goodwill of

\$11,336 which represents expected overhead synergies and acquired workforce. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of FBR, were charged against earnings in the amount of approximately \$1,485 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2017. The preliminary purchase accounting for the acquisition has been accounted for as a stock purchase with all of the recognized goodwill is expected to be non-deductible for tax purposes.

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The preliminary purchase price allocation was as follows:

|   |           |
|---|-----------|
| Consideration paid by B. Riley:   |           |
| Number of FBR Common Shares outstanding at June 1, 2017   | 7,099,511 |
| Stock merger exchange ratio   | 0.671     |
| Number of B. Riley common shares  | 4,763,772 |
| Number of B. Riley common shares to be issued from acceleration of vesting for outstanding FBR stock options, restricted stock and RSU awards | 67,861    |
| Total number of B. Riley common shares to be issued   | 4,831,633 |
| Closing market price of B. Riley common shares on December 31, 2016   | \$ 14.70  |
| Total value of B. Riley common shares   | 71,025    |
| Fair value of RSU's attributable to service period prior to June 1, 2017 <sup>(a)</sup>   | 2,446     |
| Total consideration   | \$73,471  |

Outstanding FBR restricted stock awards at June 1, 2017, the date of the acquisition, were adjusted in accordance with the FBR Merger Agreement with the right to receive 0.671 shares of the Company's common stock for each outstanding FBR stock award unit. The fair value of the FBR restricted stock awards at June 1, 2017 was (a) determined based on the closing price of the Company's common stock of \$14.70 on June 1, 2017. The fair value of the FBR restricted stock awards were apportioned as purchase consideration based on service provided to FBR as of June 1, 2017 with the remaining fair value of the FBR restricted stock awards to be recognized prospectively over the restricted stock and FBR restricted stock awards remaining vesting period.

The preliminary assets acquired and assumed was as follows:

|  |           |
|--|-----------|
| Tangible assets acquired and assumed:  |           |
| Cash and cash equivalents              | \$ 15,738 |
| Securities owned                       | 11,188    |
| Securities borrowed                    | 861,197   |
| Accounts receivable                    | 4,341     |
| Due from clearing broker               | 29,169    |
| Prepaid expenses and other assets      | 5,486     |
| Property and equipment                 | 8,663     |
| Deferred taxes                         | 17,706    |
| Accounts payable                       | (1,524 )  |
| Accrued payroll and related expenses   | (7,182 )  |
| Accrued expenses and other liabilities | (22,411 ) |
| Securities loaned                      | (867,626) |
| Customer relationships                 | 5,600     |
| Tradename and other intangibles        | 1,790     |
| Goodwill                               | 11,336    |



|       |          |
|-------|----------|
| Total | \$73,471 |
|-------|----------|

The revenue and loss of FBR included in our consolidated financial statements for the period from June 1, 2017 (the date of acquisition) through December 31, 2017 were \$85,111 and \$2,099, respectively. The loss from FBR of \$2,099 includes transaction costs of \$3,551 related to an employment agreement with the former Chief Executive Officer of FBR and restructuring charges in the amount of \$9,669 related primarily to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

#### ***Acquisition of Rights to Manage Dialectic Hedge Funds***

On April 13, 2017, the Company entered into an Asset Purchase and Assignment Agreement with Dialectic Capital Management, L.P., Dialectic Capital, LLC and John Fichthorn (collectively “Dialectic”), pursuant to which Dialectic assigned and transferred the rights to manage certain hedge funds to the Company (the “Dialectic Acquisition”). In addition to obtaining the rights to manage certain hedge funds previously managed by Dialectic, the Company hired the employees that were previously employed by the management company that managed the Dialectic hedge funds and assumed Dialectic’s office lease. In connection with the Dialectic Acquisition, the Company paid the Dialectic parties \$700 in cash consideration and 158,484 shares of common stock which has a fair value of approximately \$1,952 for total purchase consideration of \$2,652. The Dialectic Acquisition expands the Company’s assets under management in the Capital Markets segment and the Company believes such acquisition will allow the Company to benefit from planned synergies from the elimination of duplicate administrative functions of the Company. The acquisition of Dialectic is accounted for using the purchase method of accounting.

The assets acquired from Dialectic were recorded at fair value as of April 13, 2017, the acquisition date of Dialectic. The application of the purchase method of accounting resulted in preliminary purchase allocation of \$2,542 to goodwill, which represents expected overhead synergies and acquired workforce, and \$110 to other intangible assets - customer relationship for total acquisition consideration of \$2,652. There were no tangible assets or liabilities acquired in connection with Dialectic. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of Dialectic, were charged against earnings in the amount of \$72 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2017. The preliminary purchase accounting for the acquisition has been accounted for as an asset purchase with all of the recognized goodwill and other intangible assets expected to be deductible for tax purposes.

The revenue and loss of Dialectic included in our consolidated statements of income for the period from April 13, 2017 (the date of acquisition) through December 31, 2017 were \$909 and \$793, respectively.

#### ***Acquisition of United Online, Inc.***

On May 4, 2016, the Company entered into a definitive agreement and plan of merger to acquire all of the outstanding common stock of UOL, a provider of consumer Internet access and related subscription services, for \$11.00 per share, or approximately \$169,354 in aggregate merger consideration plus an additional \$1,352 of cash consideration paid to settle the legal matter as more fully described in Note 12. The shareholders of UOL approved the acquisition on June 29, 2016 and customary closing conditions were satisfied and the acquisition was completed on July 1, 2016. The acquisition of UOL allows the Company to benefit from the expected cash flows of UOL due in part to planned synergies from the elimination of duplicate overhead functions with the Company. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of UOL, were charged against earnings in the amount of \$674 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2017. The acquisition of UOL is accounted for using the purchase method of accounting.

The assets and liabilities of UOL, both tangible and intangible, were recorded at their estimated fair values as of the July 1, 2016 acquisition date for UOL. The application of the purchase method of accounting resulted in goodwill of \$14,375 which represents expected overhead synergies and acquired workforce. The revenue and earnings of UOL included in our consolidated statements of income for the year ended December 31, 2017 were \$51,743 and \$19,503, respectively. The revenue and earnings of UOL included in the consolidated statements of income for the period from July 1, 2016 (the date of acquisition) through December 31, 2016 were \$31,521 and \$5,716, respectively.

The preliminary purchase price allocation was as follows:

|  |            |
|--|------------|
| Total consideration                    | \$ 169,354 |
| Tangible assets acquired and assumed:  |            |
| Cash and cash equivalents              | \$ 125,542 |
| Restricted cash                        | 482        |
| Accounts receivables                   | 3,850      |
| Inventory                              | 624        |
| Property and equipment                 | 5,536      |
| Prepaid expenses and other assets      | 5,876      |
| Accounts payable                       | (4,874 )   |
| Accrued expenses and other liabilities | (8,886 )   |
| Deferred revenue                       | (2,900 )   |
| Deferred tax liabilities               | (6,824 )   |
| Other liabilities                      | (3,180 )   |
| Customer relationships                 | 33,700     |
| Advertising relationships              | 100        |
| Trade name and trademarks              | 1,100      |
| Domain names                           | 1,500      |
| Internally developed software          | 3,333      |
| Goodwill                               | 14,375     |
|  | \$ 169,354 |

### *Acquisition of MK Capital*

On January 2, 2015 the Company entered into a purchase agreement to acquire all of the equity interests of MK Capital Advisors, LLC (“MK Capital”), a wealth management business with operations primarily in New York. On February 2, 2015, the closing conditions were satisfied and the Company completed the purchase of MK Capital for a total purchase price of \$9,386. The purchase price is comprised of a cash payment in the amount of \$2,500 and 333,333 newly issued shares of the Company’s common stock at closing which were valued at \$2,687 for accounting purposes determined based on the closing market price of the Company’s shares of common stock on the acquisition date on February 2, 2015, less a 19.4% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of \$2,229 and the issuance of common stock with a fair value of \$1,970. The contingent cash consideration of \$2,229 was recorded based on the payment of the contingent cash consideration of \$1,250 on the first anniversary date of the closing (February 2, 2016) and a final cash payment of \$1,250 on the second anniversary date of the closing (February 2, 2017) to the former members of MK Capital discounted at 8.0% per annum (initial discount of \$271). In accordance with ASC 805, “Business Combination” (“ASC 805”), the contingent consideration liability has been classified as a liability on the acquisition date. Imputed interest expense totaled \$8 and \$101 for the year ended December 31, 2017 and 2016, respectively. At December 31, 2016, the balance of the contingent consideration liability was \$1,242 (discount of \$8 at December 31, 2016) and has

been recorded as contingent consideration liability in the consolidated balance sheets.

The fair value of the contingent stock consideration in the amount of \$1,970 has been classified as equity in accordance with ASC 805, and is comprised of the issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash and stock consideration is payable on the first and second anniversary dates of the closing provided that MK Capital generates a minimum amount of gross revenues as defined in the purchase agreement for the twelve months ending on the first and second anniversary dates of the closing. MK Capital achieved the minimum amount of revenues for the first and second anniversary periods and the contingent cash consideration and contingent stock consideration for the first anniversary period was paid and issued on February 2, 2016 and for the second anniversary period was paid and issued on February 2, 2017. The MK Capital 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 February 2, 2015 acquisition date for MK Capital. The application of the acquisition method of accounting resulted in goodwill of \$6,971 which is deductible for tax purposes. The acquisition of MK Capital allows the Company to expand into the wealth management business.

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

The purchase price allocation was as follows:

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

### *Pro Forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of the Company, Wunderlich, FBR and UOL, as though the acquisitions had occurred as of January 1, of the respective periods presented. 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 and transaction related costs. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

|   | Pro Forma (Unaudited)   |            |
|---|-------------------------|------------|
|   | Year Ended December 31, |            |
|   | 2017                    | 2016       |
| Revenues  | \$430,723               | \$464,587  |
| Net income attributable to B. Riley Financial, Inc. | \$5,672                 | \$1,754    |
| Basic earnings per share                            | \$0.22                  | \$0.07     |
| Diluted earnings per share                          | \$0.21                  | \$0.07     |
| Weighted average basic shares outstanding           | 26,150,502              | 24,972,700 |
| Weighted average diluted shares outstanding         | 27,268,888              | 25,257,931 |

### **NOTE 4— RESTRUCTURING CHARGE**

The Company recorded a restructuring charge in the amount of \$12,374 during the year ended December 31, 2017. The Company implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of FBR and Wunderlich, as more fully described in Note 3, which included a reduction in force for some of the corporate executives of FBR and Wunderlich and a restructuring to integrate FBR and Wunderlich's operations with the Company's existing operations. These initiatives resulted in a restructuring charge of \$11,651 during the year ended December 31, 2017. The restructuring charges during the year ended December 31, 2017 included \$2,400 related to severance and \$884 related to the accelerated vesting of restricted stock awards to former corporate executives of FBR and Wunderlich and \$3,241 of severance and \$1,710 related to accelerated vesting of stock awards to employees and \$3,416 of lease loss accruals and impairments for the planned consolidation of office space related to operations of FBR and Wunderlich. Of the \$11,651 of restructuring charges related to these initiatives, \$7,855 related to the Capital Markets segment and \$3,796 related to corporate overhead. The restructuring charge during the year ended December 31, 2017 also included employee termination costs of \$723 related to a reduction in personnel in the principal investments – United Online segment of our operations.

During the third quarter of 2016, after completing the acquisition of UOL, the Company initiated cost savings measures which included a reduction in force for certain corporate and administrative employees of UOL. The reduction in work force resulted in a restructuring charge of \$3,474 for employee termination costs in the Principal Investments - United Online segment during the year ended December 31, 2016. In the third quarter of 2016, the Company also entered into a sublease and consolidated one of the offices of the Company with the former corporate offices of UOL. The sublease resulted in a restructuring charge of \$413 related to office closure costs.

The following table summarizes the changes in accrued restructuring charge during years ended December 31, 2017 and 2016:

|   |          |
|---|----------|
| Accrued restructuring charge at December 31, 2015 | \$ 187   |
| Restructuring charge                              | 3,887    |
| Cash paid   | (3,380 ) |
| Non-cash items                                    | —        |
| Accrued restructuring charge at December 31, 2016 | 694      |
| Restructuring charge                              | 12,374   |
| Cash paid   | (5,957 ) |
| Non-cash items                                    | (4,511 ) |
| Accrued restructuring charge at December 31, 2017 | \$2,600  |

The following tables summarize the restructuring activities by reportable segment during the years ended December 31, 2017 and 2016:

|   | <b>Year Ended December 31,</b>        |                 |           |          | <b>2016</b>                           |          |           |         |
|---|---------------------------------------|-----------------|-----------|----------|---------------------------------------|----------|-----------|---------|
|   | <b>2017</b>                           |                 | Corporate | Total    | <b>2016</b>                           |          | Corporate | Total   |
| Capital Markets                           | Principal Investments - United Online | Capital Markets |           |          | Principal Investments - United Online |          |           |         |
| Restructuring charge:                     |                                       |                 |           |          |                                       |          |           |         |
| Employee termination costs                | \$4,951                               | \$ 723          | \$ 3,284  | \$8,958  | \$—                                   | \$ 3,474 | \$ —      | \$3,474 |
| Facility closure and consolidation charge | 2,904                                 | —               | 512       | 3,416    | —                                     | —        | 413       | 413     |
| Total restructuring charge                | \$7,855                               | \$ 723          | \$ 3,796  | \$12,374 | \$—                                   | \$ 3,474 | \$ 413    | \$3,887 |

#### **NOTE 5— SECURITIES LENDING**

As a result of the acquisition of FBR, the Company has an active securities borrowed and loaned business in which it borrows securities from one party and lends them to another. Securities borrowed and securities loaned are recorded based upon the amount of cash advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of the securities borrowed and loaned on a

daily basis, with additional collateral obtained, or excess collateral recalled, when deemed appropriate.

The following table presents the contractual gross and net securities borrowing and lending balances and the related offsetting amount as of December 31, 2017:

|                         | Gross amounts recognized | Gross amounts offset in the consolidated balance sheets <sup>(1)</sup> | Net amounts included in the consolidated balance sheets | Amounts not offset in the consolidated balance sheets but eligible for offsetting upon counterparty default <sup>(2)</sup> | Net amounts |
|-------------------------|--------------------------|--|---|--|-------------|
| As of December 31, 2017 |                          |  |   |  |             |
| Securities borrowed     | \$ 807,089               | \$—  | \$807,089   | \$807,089  | \$ —        |
| Securities loaned       | \$ 803,371               | \$—  | \$803,371   | \$803,371  | \$ —        |

<sup>(1)</sup> Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.

<sup>(2)</sup> Includes the amount of cash collateral held/posted.



**NOTE 6— ACCOUNTS RECEIVABLE**

The components of accounts receivable net include the following:

|  | December<br>31,<br>2017 | December<br>31,<br>2016 |
|--|-------------------------|-------------------------|
| Accounts receivable  | \$ 15,593               | \$ 16,610               |
| Investment banking fees, commissions and other receivables | 4,199                   | 576                     |
| Unbilled receivables                                       | 1,023                   | 2,058                   |
| Total accounts receivable                                  | 20,815                  | 19,244                  |
| Allowance for doubtful accounts                            | (800 )                  | (255 )                  |
| Accounts receivable, net                                   | \$ 20,015               | \$ 18,989               |

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

|                            | Year Ended December<br>31, |       |         |
|----------------------------|----------------------------|-------|---------|
|                            | 2017                       | 2016  | 2015    |
| Balance, beginning of year | \$255                      | \$89  | \$728   |
| Add: Additions to reserve  | 1,066                      | 710   | 718     |
| Less: Write-offs           | (311 )                     | (194) | (1,056) |
| Less: Recoveries           | (210 )                     | (350) | (301 )  |
| Balance, end of year       | \$800                      | \$255 | \$89    |

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

**NOTE 7— PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following:

Estimated

December 31,

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|   | Useful Lives   | 2017     | 2016     |
|---|--|----------|----------|
| Leasehold improvements                          | Shorter of the remaining lease term or estimated useful life | \$7,834  | \$2,325  |
| Machinery, equipment and computer software      | 3 to 5 years   | 9,474    | 6,559    |
| Furniture and fixtures                          | 5 years  | 2,688    | 1,921    |
| Total   |  | 19,996   | 10,805   |
| Less: Accumulated depreciation and amortization |  | (8,019 ) | (5,020 ) |
|   |  | \$11,977 | \$5,785  |

Depreciation expense was \$3,718, \$1,052 and \$417 during the years ended December 31, 2017, 2016 and 2015, respectively.

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

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 were as follows:

|   | Capital<br>Markets<br>Segment | Auction<br>and<br>Liquidation<br>Segment | Valuation<br>and<br>Appraisal<br>Segment | Principal<br>Investments-<br>United<br>Online<br>Segment | Total    |
|---|-------------------------------|--|--|--|----------|
| Balance as of December 31, 2015                                       | \$28,840                      | \$ 1,975                                 | \$ 3,713                                 | \$ —   | \$34,528 |
| Goodwill acquired during the period:<br>United Online on July 1, 2016 | —                             | —  | —  | 14,375   | 14,375   |
| Balance as of December 31, 2016                                       | 28,840                        | 1,975                                    | 3,713                                    | 14,375   | 48,903   |
| Goodwill acquired during the period:<br>Dialectic on April 13, 2017   | 2,542                         | —  | —  | —  | 2,542    |
| FBR on June 1, 2017   | 11,336                        | —  | —  | —  | 11,336   |
| Resolution of acquisition related legal matter on June 30,<br>2017    | —                             | —  | —  | 1,352  | 1,352    |
| Wunderlich on July 3, 2017  | 34,638                        | —  | —  | —  | 34,638   |
| Balance as of December 31, 2017                                       | \$77,356                      | \$ 1,975                                 | \$ 3,713                                 | \$ 15,727  | \$98,771 |

Intangible assets consisted of the following:

|  | Useful<br>Life    | December 31, 2017          |                             |                    | December 31, 2016          |                             |                    |
|--|-------------------|----------------------------|-----------------------------|--------------------|----------------------------|-----------------------------|--------------------|
|  |                   | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangibles<br>Net | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangibles<br>Net |
| Amortizable assets:                                    |                   |                            |                             |                    |                            |                             |                    |
| Customer relationships                                 | 4 to 16<br>Years  | \$58,330                   | \$ 9,100                    | \$ 49,230          | \$37,300                   | \$ 3,100                    | \$ 34,200          |
| Domain names   | 7 Years           | 287                        | 61                          | 226                | 1,419                      | 101                         | 1,318              |
| Advertising relationships                              | 8 Years           | 100                        | 19                          | 81                 | 100                        | 6                           | 94                 |
| Internally developed software and<br>other intangibles | 0.5 to 4<br>Years | 3,373                      | 1,445                       | 1,928              | 3,333                      | 550                         | 2,783              |
| Trademarks   | 7 to 8<br>Years   | 4,190                      | 447                         | 3,743              | 1,100                      | 69                          | 1,031              |
| Total  |                   | 66,280                     | 11,072                      | 55,208             | 43,252                     | 3,826                       | 39,426             |

Non-amortizable assets:

|                         |          |           |           |          |          |           |
|-------------------------|----------|-----------|-----------|----------|----------|-----------|
| Tradenames              | 1,740    | —         | 1,740     | 1,740    | —        | 1,740     |
| Total intangible assets | \$68,020 | \$ 11,072 | \$ 56,948 | \$44,992 | \$ 3,826 | \$ 41,166 |

Amortization expense was \$7,422, \$3,254 and \$431 for the years ended December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, estimated future amortization expense is \$8,497, \$8,376, \$8,008, \$7,617 and \$7,592 for the years ended December 31, 2018, 2019, 2020, 2021 and 2022, respectively. The estimated future amortization expense after December 31, 2022 is \$15,118.

**NOTE 9— LEASING ARRANGEMENTS**

The Company has several noncancellable operating leases that expire at various dates through 2031. Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2017 were:

| Year Ending December 31:     | Operating<br>Leases |
|------------------------------|---------------------|
| 2018                         | \$ 13,496           |
| 2019                         | 9,640               |
| 2020                         | 6,984               |
| 2021                         | 5,589               |
| 2022                         | 5,024               |
| Thereafter                   | 16,369              |
| Total minimum lease payments | \$ 57,102           |

Rent expense under all operating leases was \$7,599, \$3,205 and \$2,376 for the years ended December 31, 2017, 2016, and 2015, respectively. Rent expense is included in Selling, general and administrative expenses in the accompanying consolidated statements of income.

## **NOTE 10— CREDIT FACILITIES**

Credit facilities consist of the following arrangements:

### ***(a) \$200,000 Asset Based Credit Facility***

On April 21, 2017, the Company amended its credit agreement (as amended, the “Credit Agreement”) governing its asset based credit facility with Wells Fargo Bank, National Association (“Wells Fargo Bank”) to increase the maximum borrowing limit from \$100,000 to \$200,000. Such amendment, among other things, also extended the expiration date of the credit facility from July 15, 2018 to April 21, 2022. The Credit Agreement continues to allow for borrowings under the separate credit agreement (a “UK Credit Agreement”) which was dated March 19, 2015 with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. Such 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 \$200,000 credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. The Credit Agreement continues to include the addition of our Canadian subsidiary, from the October 5, 2016 amendment to the Credit Agreement, to facilitate borrowings to fund retail liquidation transactions in Canada. 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 Company paid Wells Fargo Bank a closing fee in the amount of \$500 in connection with the April 2017 amendment to the Credit Agreement. The interest rate for each revolving credit advance under the Credit Agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. The credit facility also provides for success fees in the amount of 2.5% to 17.5% of the net profits, if any, earned on the liquidation engagements funded under the Credit Agreement as set forth therein. Interest expense totaled \$1,136 (including amortization of deferred loan fees of \$123 and success fee of \$198), \$1,113 (including amortization of deferred loan fees of \$92 and success fee of \$732) and \$376 (including amortization of deferred loan fees of \$92 and success fee of \$127) for the years ended December 31, 2017, 2016 and 2015, respectively. There was no outstanding balance of this credit facility at December 31, 2017 and December 31, 2016.

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) \$20,000 UOL Line of Credit***

On April 13, 2017, UOL, in the capacity as borrower, entered into a credit agreement (the "UOL Credit Agreement") with Banc of California, N.A. in the capacity as agent and lender. The UOL Credit Agreement provides for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20,000 which amount is reduced by \$1,500 commencing on June 30, 2017 and on the last day of each calendar quarter thereafter. The final maturity date is April 13, 2020. The proceeds of the UOL Credit Agreement can be used (a) for working capital and general corporate purposes and/or (b) to pay dividends or permitted tax distributions to its parent company, subject to the terms of the UOL Credit Agreement. Borrowings under the UOL Credit Agreement will bear interest at a rate equal to (a) (i) the base rate (the greater of the federal funds rate plus one half of one percent (0.5%), or the prime rate) for U.S. dollar loans or (ii) at UOL's option, the LIBOR Rate for Eurodollar loans, plus (b) the applicable margin rate, which ranges from two percent (2%) to three and one-half percent (3.5%) per annum, based upon UOL's ratio of funded indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the preceding four (4) fiscal quarters. Interest payments are to be made each one, three or six months for Eurodollar loans, and quarterly for U.S. dollar loans.

UOL paid a commitment fee equal to 1.00% of the aggregate commitments upon the closing of the UOL Credit Agreement. The UOL Credit Agreement also provides for an unused line fee payable quarterly, in arrears, in an amount equal to: (a) 0.50% per annum times the amount of the unused revolving commitment that is less than or equal to the amount of the cash maintained in accounts with the agent (as depository bank); plus (b) 1.00% per annum times the amount of the unused revolving commitment that is greater than the amount of the cash maintained in accounts with the agent (as depository bank). Any amounts outstanding under the UOL Credit Facility are due at maturity. There was no outstanding balance under the UOL Credit Agreement at December 31, 2017. Interest expense totaled \$292 (including amortization of deferred loan fees of \$97) for the year ended December 31, 2017.

Each of UOL's U.S. subsidiaries is a guarantor of all obligations under the UOL Credit Agreement and are parties to the UOL Credit Agreement in such capacity (collectively, the "Secured Guarantors"). In addition, the Company and B. Riley Principal Investments, LLC, the parent corporation of UOL and a subsidiary of the Company, are guarantors of the obligations under the UOL Credit Agreement pursuant to standalone guaranty agreements pursuant to which the shares of outstanding capital stock of UOL are pledged as collateral. The obligations under the UOL Credit Agreement are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of UOL and the Secured Guarantors, including a pledge of (a) 100% of the equity interests of the Secured Guarantors and (b) 65% of the equity interests in United Online Software Development (India) Private Limited, a private limited company organized under the laws of India. Such security interests are evidenced by pledge, security and other related agreements.

The UOL Credit Agreement contains certain negative covenants, including those limiting UOL's and its subsidiaries' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of their businesses, engage in transactions with related parties, make certain investments or pay dividends. In addition, the UOL Credit Agreement requires UOL and its subsidiaries to maintain certain financial ratios.

#### **NOTE 11— NOTES PAYABLE**

Senior notes payable, net, is comprised of the following as of December 31, 2017 and 2016:

|  | December 31, |          |
|--|--------------|----------|
|  | 2017         | 2016     |
| 7.50% Senior notes due October 31, 2021  | \$35,231     | \$28,750 |
| 7.50% Senior notes due May 31, 2027      | 92,490       | —        |
| 7.25% Senior notes due December 31, 2027 | 80,500       | —        |
|  | 208,221      | 28,750   |
| Less: Unamortized debt issue costs       | (4,600 )     | (1,050 ) |
|  | \$203,621    | \$27,700 |

#### ***(a) \$35,231 Senior Notes Payable due October 31, 2021***

At December 31, 2017, the Company had \$35,231 of Senior Notes Payable (the "2021 Notes") due in 2021, interest payable quarterly at 7.50%. On November 2, 2016, the Company issued \$28,750 of the 2021 Notes and during the third and fourth quarter of 2017, the Company issued an additional \$6,481 of the 2021 Notes. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, the Company received net proceeds of \$34,238 (after underwriting commissions, fees and other issuance costs of \$993).

The outstanding balance of the 2021 Notes was \$34,483 (net of unamortized debt issue costs and premiums of \$748) and \$27,700 (net of unamortized debt issue costs of \$1,050) at December 31, 2017 and 2016, respectively. In connection with the offering of 2021 Notes on November 2, 2016, certain members of management and the Board of Directors of the Company purchased \$2,731 or 9.5% of the 2021 Notes offered by the Company. Interest expense on the 2021 Notes totaled \$2,537 and \$360 for the years ended December 31, 2017 and 2016, respectively.

***(b) \$92,490 Senior Notes Payable due May 31, 2027***

At December 31, 2017, the Company had \$92,490 of Senior Notes Payable (the "7.50% 2027 Notes") due in May 2027, interest payable quarterly at 7.50%. On May 31, 2017, the Company issued \$60,375 of the 7.5% 2027 Notes and during the third and fourth quarter ended 2017, the Company issued an additional \$32,115 of the 7.50% 2027 Notes. The 7.50% 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, the Company received net proceeds of \$90,796 (after underwriting commissions, fees and other issuance costs of \$1,694). The outstanding balance of the 7.50% 2027 Notes was \$90,904 (net of unamortized debt issue costs of \$1,586) at December 31, 2017. Interest expense on the 7.50% 2027 Notes totaled \$3,551 for the year ended December 31, 2017.

***(c) \$80,500 Senior Notes Payable due December 31, 2027***

At December 31, 2017, the Company had \$80,500 of Senior Notes Payable ("7.25% 2027 Notes") due in December 2027, interest payable quarterly at 7.25%. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, the Company received net proceeds of \$78,223 (after underwriting commissions, fees and other issuance costs of \$2,277). The outstanding balance of the 7.25% 2027 Notes was \$78,234 (net of unamortized debt issue costs of \$2,266) at December 31, 2017. Interest expense on the 7.25% 2027 Notes totaled \$303 for the year ended December 31, 2017.

***(d) At Market Issuance Sales Agreement to Issue Up to Aggregate of \$19,000 of 2021 Notes, 7.50% 2027 Notes or 7.25% 2027 Notes.***

On December 19, 2017, the Company entered into the Sales Agreement and filed a prospectus supplement pursuant to which the Company may sell from time to time, at the Company's option up to an aggregate of \$19,000 of the 2021 Notes, the 7.50% 2027 Notes and the 7.25% 2027 Notes. The Notes sold pursuant to the Sales Agreement will be issued pursuant to a prospectus dated March 29, 2017, as supplemented by a prospectus supplement dated June 28, 2017, in each case filed with the Securities and Exchange Commission pursuant to the Company's effective Registration Statement on Form S-3 (File No. 333-216763), which was declared effective by the SEC on March 29, 2017. The Notes will be issued pursuant to the Indenture, dated as of November 2, 2016, as supplemented by a First Supplemental Indenture, dated as of November 2, 2016 and the Second Supplemental Indenture, dated as of May 31, 2017, each between the Company and U.S. Bank, National Association, as trustee. Future sales of the 2021 Notes, 7.50% 2027 Notes and 7.25% 2027 Notes pursuant to the Sales Agreement will depend on a variety of factors



including, but not limited to, market conditions, the trading price of the notes and the Company's capital needs. At December 31, 2017, the Company has an additional \$19,000 of 2021 Notes, 7.50% 2027 Notes or 7.25% 2027 Notes that may be sold pursuant to the Sales Agreement. There can be no assurance that the Company will be successful in consummating future sales based on prevailing market conditions or in the quantities or at the prices that the Company may deem appropriate.

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***(e) Australian Dollar \$80,000 Note Payable***

In August 2016, the Company formed GA Retail Investments, L.P., a Delaware limited partnership, (the “Partnership”) which required the Company to contribute \$15,350. The Partnership borrowed \$80,000 Australian dollars from a third party investor in connection with its formation and the \$80,000 Australian dollars was exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement the Company entered into to liquidate the Masters Home Improvement stores. The \$80,000 Australian dollar participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and was subject to repayment upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. Although the terms of the participating note payable included the issuance of a 50% equity interest in the Partnership, sharing in all profits and losses of the Partnership, and no repayment until certain events occur, in accordance with ASC 480 Distinguishing Liabilities From Equity, this financial instrument was classified as a participating note payable. The \$80,000 Australian dollar participating note payable was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At December 31, 2017 and 2016, \$1,323 and \$10,037, respectively, were payable in accordance with the participating note payable share of profits and is included in net income attributable to noncontrolling interests and amounts Due to partners in the consolidated financial statements.

***(f) Other Notes Payable***

Other notes payable include notes payable to a clearing organization for one of the Company’s broker dealers. The notes payable accrue interest at rates ranging from the prime rate plus 0.25% to 2.0% (4.75% to 6.50% at December 30, 2017) payable annually. The principal payments on the notes payable are due annually in the amount of \$357 on January 31, \$214 on September 30, and \$121 on October 31. The notes payable mature at various dates from September 30, 2018 through January 31, 2022. At December 31, 2017, the outstanding balance for the notes payable was \$2,243. Interest expense was \$71 for the period from July 3, 2017 (the date of Wunderlich acquisition) through December 31, 2017.

**NOTE 12— COMMITMENTS AND CONTINGENCIES**

***(a) Letters of Credit –***

At December 31, 2017, there were letters of credit outstanding in the amount of \$18,505 related to three retail liquidation engagements. At December 31, 2016, there was a letter of credit in the amount of \$465 which was maintained pursuant to lease arrangements and contractual obligations.

*(b) Legal Matters*

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. In particular, the Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. The Company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. In view of the number and diversity of claims against our company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. Notwithstanding this uncertainty, the Company does not believe that the results of these claims are likely to have a material effect on its financial position or results of operations.

In 2012, Gladden v. Cumberland Trust, WSI, et al. filed a complaint in Circuit Court, Hamblen County, TN at Morristown, Case No. 12-CV-119. This complaint alleges the improper distribution and misappropriation of trust funds. The plaintiff seeks damages of no less than \$3,925, an accounting, and among other things, punitive damages. In October 2017, the Tennessee Supreme Court remanded the case to the Tennessee State Trial Court for determination of which claims are subject to arbitration and which are not. At the present time, the financial impact to the Company, if any, cannot be estimated.

In January 2015, Great American Group, LLC (“Great American Group”) was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding in the United States Bankruptcy Court for the District of Delaware (“Bankruptcy Court”) is pending in the bankruptcy case of the debtor and its affiliates (the “Debtor”). In the lawsuit, a former landlord of the Debtor generally alleges that Great American Group and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking approximately \$10,000 in damages. In December 2017, the parties settled the matter and the financial impact to the Company was not material.

In May 2014, Waterford Township Police & Fire Retirement System et al. v. Regional Management Corp et al., filed a complaint in the Southern District of New York (the “Court”), against underwriters alleging violations under sections 11 and 12 of the Securities Act of 1933, as amended (the “Securities Act”). B. Riley FBR, Inc. (“B. Riley FBR”) (formerly, FBR Capital Markets & Co. (“FBRCM”)), a broker-dealer subsidiary of ours, was a co-manager of 2 offerings. On January 30, 2017, the Court denied the plaintiffs’ motion to file a first amended complaint, which would have revived claims previously dismissed by the Court on March 30, 2016. On March 1, 2017, the plaintiffs filed a notice of appeal and an opening brief on June 21, 2017. Defendant’s opposition motion was filed on September 12, 2017. Appellants filed their reply brief on October 17, 2017 and oral argument was held on November 17, 2017. On January 26, 2018, the Appellate court issued its order affirming the court’s order dismissing the plaintiff’s case and denying leave to amend. Regional Management continues to indemnify all of the underwriters, including FBRCM, pursuant to the operative underwriting agreement.

On January 5, 2017, complaints filed in November 2015 and May 2016 naming MLV & Co. (“MLV”), a broker-dealer subsidiary of FBR, as a defendant in putative class action lawsuits alleging claims under the Securities Act, in connection with the offerings of Miller Energy Resources, Inc. (“Miller”) have been consolidated. The Master Consolidated Complaint, styled Gaynor v. Miller et al., is pending in the United States District Court for the Eastern District of Tennessee, and, like its predecessor complaints, continues to allege claims under Sections 11 and 12 of the Securities Act against nine underwriters for alleged material misrepresentations and omissions in the registration statement and prospectuses issued in connection with six offerings (February 13, 2013; May 8, 2013; June 28, 2013; September 26, 2013; October 17, 2013 (as to MLV only) and August 21, 2014) with an alleged aggregate offering price of approximately \$151,000. The plaintiffs seek unspecified compensatory damages and reimbursement of certain costs and expenses. In August 2017, the Court granted Defendant’s Motion to Dismiss on Section 12 claims and found that the plaintiffs had not sufficiently alleged a corrective disclosure prior to August 6, 2015, when an SEC civil action was announced. Defendants’ answer was filed on September 25, 2017. Although MLV is contractually entitled to be indemnified by Miller in connection with this lawsuit, Miller filed for bankruptcy in October 2015 and this likely will decrease or eliminate the value of the indemnity that MLV receives from Miller.

On July 5, 2016, Quadre Investments LP (“Quadre”) filed a petition with the Delaware Court of Chancery (the “Court”) seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by the Company. Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre petitioned the Court to receive fair value as determined by the Court. On June 30, 2017, the parties settled the action and the petition was dismissed. As discussed in Note 3, the settlement of this action resulted in an increased in goodwill.

In February 2017, certain former employees filed an arbitration claim with FINRA against Wunderlich Securities, Inc. (“WSI”) alleging misrepresentations in the recruitment of claimants to join WSI. Claimants also allege that WSI failed to support their mortgage trading business resulting in the loss of opportunities during their employment with WSI. Claimants are seeking \$10,000 in damages. WSI has counterclaimed alleging that claimants misrepresented their process for doing business, particularly their capital needs, resulting in substantial losses to WSI. WSI believes the claims are meritless and intends to vigorously defend the action. A hearing has been scheduled for March 2018.

In March 2017, United Online, Inc. received a letter from PeopleConnect, Inc. (formerly, Classmates, Inc.) (“Classmates”) regarding a notice of investigation received from the Consumer Protection Divisions of the District Attorneys’ offices of four California counties (“California DAs”). These entities suggest that Classmates may be in violation of California codes relating to unfair competition, false or deceptive advertising, and auto-renewal practices. Classmates asserts that these claims are indemnifiable claims under the purchase agreement between United Online, Inc. and the buyer of Classmates. A tolling agreement with the California DAs has been signed and informal discovery and production is in process. At the present time, the financial impact to the Company, if any, cannot be estimated.

In July 2017, an arbitration claim was filed with FINRA by Dominick & Dickerman LLC and Michael Campbell against WSI and Gary Wunderlich with respect to the acquisition by Wunderlich Investment Company, Inc. (“WIC”) (the parent corporation of WSI) of certain assets of Dominick & Dominick LLC in 2015. The Claimants allege that respondents overvalued WIC so that the purchase price paid to the Claimants in shares of WIC stock was artificially inflated. The Statement of Claim includes claims for common law fraud, negligent misrepresentation, and breach of contract. Claimants are seeking damages of approximately \$8,000 plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

In September 2017, Frontier State Bank (“Frontier”) filed a lawsuit against Wunderlich Loan Capital Corp., a subsidiary of WIC (“WLCC”), seeking rescission of the purchase a residential mortgage in the amount of \$1,300. Vanguard Funding, LLC (“Vanguard”) sold the mortgage to WLCC who then assigned its rights to Frontier. Shortly after closing, Frontier was advised that the mortgage had been previously pledged to another lender. In the lawsuit against WLCC, it is alleged that WLCC did not deliver the mortgage to Frontier with clear title. WLCC is conducting settlement discussions with Frontier that are not expected to have a material financial impact on the Company.

In September 2017, a statement of claim was filed in a FINRA arbitration naming FBRCM and other underwriters related to the underwriting of the now-bankrupt, Quantum Fuel Systems Technologies Worldwide, Inc. (“Quantum”). Claimants are seeking \$37,000 in actual damages, plus \$75,000 in punitive damages and attorney’s fees. On October 24, 2017, we joined in a motion with the other underwriters requesting that the claim be dismissed on the grounds that it is improper under FINRA Rules 12204 and 122205 which prohibit class actions and derivative claims, respectively. On December 1, 2017, the claims were dismissed by FINRA.

**NOTE 13— INCOME TAXES**

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, provides an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creates new taxes on certain foreign sourced earnings. As of the completion of these financial statements and related disclosures, we have not completed our accounting for the tax effects of the Tax Act; however, we have made a reasonable estimate of such effects and recorded a provisional tax expense of \$13,052, which is included as a component of income tax expense in the fourth quarter of 2017 and is comprised of (a) \$12,954 related to the remeasurement of deferred tax assets and liabilities in the United States and (b) \$98 related to the transition tax on foreign earnings. This provisional tax expense incorporates assumptions made based upon the Company's current interpretation of the Tax Act, and may change as we receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves. In accordance with SEC Staff Accounting Bulletin No. 118, the Company will finalize the accounting for the effects of the Tax Act no later than the fourth quarter of 2018. Future adjustments made to the provisional effects will be reported as a component of income tax expense in the reporting period in which any such adjustments are determined.

The Company's provision for income taxes consists of the following for the years ended December 31, 2017, 2016 and 2015:

|                                  | <b>Year Ended December</b> |          |         |
|----------------------------------|----------------------------|----------|---------|
|                                  | <b>31,</b>                 |          |         |
|                                  | 2017                       | 2016     | 2015    |
| Current:                         |                            |          |         |
| Federal                          | \$3,804                    | \$5,530  | \$201   |
| State                            | 1,019                      | 1,114    | 99      |
| Foreign                          | (975 )                     | 4,063    | 779     |
| Total current provision          | 3,848                      | 10,707   | 1,079   |
| Deferred:                        |                            |          |         |
| Federal                          | 6,889                      | 3,015    | 5,166   |
| State                            | (1,937)                    | 610      | 1,443   |
| Foreign                          | (290 )                     | (11 )    | —       |
| Total deferred                   | 4,662                      | 3,614    | 6,609   |
| Total provision for income taxes | \$8,510                    | \$14,321 | \$7,688 |

A reconciliation of the federal statutory rate of 35% to the effective tax rate for income before income taxes is as follows for the year ended December 31, 2017, 2016 and 2015:

|   | <b>Year Ended</b>   |        |        |
|---|---------------------|--------|--------|
|   | <b>December 31,</b> |        |        |
|   | 2017                | 2016   | 2015   |
| Provision for income taxes at federal statutory rate  | 35.0 %              | 35.0%  | 34.0%  |
| State income taxes, net of federal benefit  | 5.0                 | 2.8    | 4.0    |
| Transaction expenses  | 2.0                 | —      | —      |
| Noncontrolling interest tax differential  | (6.6 )              | (6.2 ) | —      |
| Key man life insurance  | (7.9 )              | —      | —      |
| Employee stock based compensation   | (8.7 )              | —      | —      |
| Internal Revenue Service Section 338(g) - Treatment of acquisition of UOL as a taxable business combination | (44.6)              | —      | —      |
| U.S. Tax Cuts and Jobs Act  | 63.8                | —      | —      |
| Other   | 3.6                 | (1.2 ) | (1.8 ) |
| Effective income tax rate   | 41.6 %              | 30.4%  | 36.2%  |

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Deferred income tax assets (liabilities) consisted of the following as of December 31, 2017 and 2016:

|   | <b>December 31,</b> |          |
|---|---------------------|----------|
|   | 2017                | 2016     |
| Deferred tax assets:                            |                     |          |
| Deductible goodwill and other intangibles       | \$4,019             | \$—      |
| Accrued liabilities and other                   | 3,549               | 2,459    |
| Deferred revenue                                | 54                  | 335      |
| Mandatorily redeemable noncontrolling interests | 1,109               | 1,173    |
| Other   | 312                 | 379      |
| State taxes                                     | —                   | 994      |
| Share based payments                            | 2,117               | 443      |
| Foreign tax and other tax credit carryforwards  | 290                 | 1,855    |
| Capital loss carryforward                       | 2,582               | 3,600    |
| Net operating loss carryforward                 | 17,900              | 7,711    |
| Total deferred tax assets                       | 31,932              | 18,949   |
| Deferred tax liabilities:                       |                     |          |
| State taxes                                     | (46 )               | —        |
| Depreciation                                    | (73 )               | (1,291 ) |
| Goodwill and other intangibles                  | —                   | (4,139 ) |
| Total deferred tax liabilities                  | (119 )              | (5,430 ) |
| Net deferred tax assets                         | 31,813              | 13,519   |
| Valuation allowance                             | (2,582 )            | (4,900 ) |
| Net deferred tax assets                         | \$29,231            | \$8,619  |

The Company's income before income taxes of \$20,445 for the year ended December 31, 2017 includes a United States component of income before income taxes of \$19,949 and a foreign component comprised of income before income taxes of \$496. As of December 31, 2017, the Company had federal net operating loss carryforwards of \$63,445, state net operating loss carryforwards of \$76,978. The Company's federal net operating loss carryforwards will expire in the tax years commencing in December 31, 2029 through December 31, 2034, the state net operating loss carryforwards will expire in tax years commencing in December 31, 2029 and the foreign tax credit carryforwards will expire in 2027.

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, capital 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. The Company's net operating losses are subject to annual limitations in accordance with Internal Revenue Code Section 382. Accordingly, the Company is 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, 2017, the Company believes that the existing net operating loss



carryforwards 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 a valuation allowance. The Company does not believe that it is more likely than not that the Company will be able to utilize the benefits related to capital loss carryforwards and has provided a full valuation allowance in the amount of \$2,582 against these deferred tax assets.

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At December 31, 2017, the Company had gross unrecognized tax benefits totaling \$1,140 all of which would have an impact on the Company's effective income tax rate, if recognized. A reconciliation of the amounts of gross unrecognized tax benefits (before federal impact of state items), excluding interest and penalties, was as follows (in thousands):

|  | <b>Year<br/>Ended<br/>December<br/>31,<br/>2017</b> |
|--|---|
| Beginning balance                                  |   |
| Addition as a result of the acquisition of UOL     | \$ 1,255  |
| Additions for current year tax positions           | —   |
| Additions for Prior year tax positions             | 34  |
| Reductions for Prior year tax positions            | —   |
| Reductions due to lapse in statutes of limitations | (149 )  |
| Ending balance                                     | \$ 1,140  |

The Company files income tax returns in the U.S., various state and local jurisdictions, and certain other foreign jurisdictions. The Company is currently under audit by certain state and local, and foreign tax authorities. The audits are in varying stages of completion. The Company evaluates its tax positions and establishes liabilities for uncertain tax positions that may be challenged by tax authorities. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, case law developments and closing of statutes of limitations. Such adjustments are reflected in the provision for income taxes, as appropriate. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar years ended December 31, 2014 to 2017.

At December 31, 2017, the Company believes it is reasonably possible that its gross liabilities for unrecognized tax benefits may decrease by approximately \$345 within the next 12 months due to audit settlements and expiration of statute of limitations.

The Company had accrued \$786 for interest and penalties relating to uncertain tax positions at December 31, 2017 all of which was included in income taxes payable as a component of Accrual expenses and other liabilities in the consolidated balance sheet. The Company recorded a benefit of \$149 for interest and penalty expenses related to uncertain tax positions, which was included in provision for income taxes, for the year ended December 31, 2017.

#### **NOTE 14— EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the year. 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 year. Basic common shares outstanding exclude 453,365 common shares that are held in escrow and subject to forfeiture. The common shares held in escrow includes 66,000 common shares issued to the former members of Great American Group, LLC are subject to forfeiture upon the final settlement of claims for goods held for sale in connection with Alternative Asset Management Acquisition Corp. in 2009 and 387,365 common shares that are subject to forfeitures upon the final settlement of claims as more fully described in the related escrow instructions. Dilutive common shares outstanding include contingently issuable shares that are currently in escrow and subject to release if the conditions for the final settlement of claims in accordance with the escrow instructions were satisfied at the end of the respective years. Securities that could potentially dilute basic net income per share in the future that were not included in the computation of diluted net income per share for the years ended December 31, 2017, 2016 and 2015 were 709,358, 384,825 and 308,699, respectively, because to do so 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, |            |            |
|---|-------------------------|------------|------------|
|   | 2017                    | 2016       | 2015       |
| Net income attributable to B. Riley Financial, Inc. | \$ 11,556               | \$ 21,526  | \$ 11,805  |
| Weighted average shares outstanding:                |                         |            |            |
| Basic   | 23,181,388              | 18,106,621 | 16,221,040 |
| Effect of dilutive potential common shares:         |                         |            |            |
| Restricted stock units and non-vested shares        | 901,397                 | 198,852    | —          |
| Contingently issuable shares                        | 208,119                 | 86,379     | 44,875     |
| Diluted   | 24,290,904              | 18,391,852 | 16,265,915 |
| Basic income per share                              | \$0.50                  | \$ 1.19    | \$0.73     |
| Diluted income per share                            | \$0.48                  | \$ 1.17    | \$0.73     |

#### NOTE 15— LIMITED LIABILITY COMPANY SUBSIDIARIES

##### *(a) Operating Agreements of Limited Liability Company Subsidiaries*

The Company has certain 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 sheets. 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 income.

In accordance with the operating agreement of one of the Company's limited liability Company's, a repurchase event occurred in the second quarter of 2017 for one of the Members which resulted in the repurchase on the Members minority ownership interest. The triggering event resulted in a fair value adjustment and purchase of the Members minority interest in the amount of \$7,850. The Company also received proceeds of \$6,000 from key man life insurance in connection with this event.

During the year ended December 31, 2017, the change in fair value of the mandatorily redeemable noncontrolling interests was \$9,000, which was comprised of a fair value adjustments of \$1,150 and \$7,850 from the triggering event previously discussed above. During the year ended December 31, 2016, the change in fair value of the mandatorily redeemable noncontrolling interests was \$800. There was no change in the fair value of the mandatorily redeemable noncontrolling interests during the year ended December 31, 2015. The noncontrolling interests share of net income was \$1,799, \$2,232 and \$2,207 for the years ended December 31, 2017, 2016 and 2015, respectively.

#### **NOTE 16—SHARE BASED PAYMENTS**

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

During the years ended December 31, 2017, 2016 and 2015, the Company granted restricted stock units representing 486,049, 544,605 and 527,372 shares of common stock with a total fair value of \$7,732, \$5,301 and \$5,261 to certain employees and directors of the Company under the Company's Amended and Restated 2009 Stock Incentive Plan (the "Plan"). Share-based compensation expense for such restricted stock units was \$4,994, \$2,768 and \$2,043 for the years ended December 31, 2017, 2016 and 2015, respectively. The total income tax benefit recognized related to the vesting of restricted stock units was \$1,249, \$1,141 and \$804 for the years ended December 31, 2017, 2016 and 2015, respectively.

The restricted stock units generally vest over a period of one to three years based on continued service. In determining the fair value of restricted stock units on the grant date, the fair value is adjusted for (a) estimated forfeitures, (b) expected dividends based on historical patterns and the Company's anticipated dividend payments over the expected holding period and (c) the risk-free interest rate based on U.S. Treasuries for a maturity matching the expected holding period. As of December 31, 2017, the expected remaining unrecognized share-based compensation expense of \$7,901 will be expensed over a weighted average period of 2.1 years.

A summary of equity incentive award activity under the Plan for the years ended December 31, 2017, 2016, and 2015 was as follows:

|                                | Shares    | Weighted<br>Average<br>Fair<br>Value |
|--------------------------------|-----------|--------------------------------------|
| Nonvested at January 1, 2015   | 5,859     | \$ 7.68                              |
| Granted                        | 527,372   | 9.98                                 |
| Vested                         | (196,414) | 9.92                                 |
| Forfeited                      | (14,086 ) | 9.98                                 |
| Nonvested at December 31, 2015 | 322,731   | \$ 9.97                              |
| Granted                        | 544,605   | 9.73                                 |
| Vested                         | (173,147) | 10.13                                |
| Forfeited                      | (14,054 ) | 9.84                                 |
| Nonvested at December 31, 2016 | 680,135   | \$ 9.74                              |
| Granted                        | 486,049   | 15.91                                |
| Vested                         | (344,196) | 10.05                                |
| Forfeited                      | (29,724 ) | 10.49                                |
| Nonvested at December 31, 2017 | 792,264   | \$ 13.30                             |

The per-share weighted average grant-date fair value of restricted stock units was \$15.91, \$9.73 and \$9.98 for the years ending December 31, 2017, 2016 and 2015, respectively. The total fair value of shares vested during the years ended December 31, 2017, 2016 and 2015 was \$3,459, \$1,755 and \$1,949, respectively.

*(b) Amended and Restated FBR & Co. 2006 Long-Term Stock Incentive Plan*

In connection with the acquisition of FBR on June 1, 2017, the equity awards previously granted or available for issuance under the FBR & Co. 2006 Long-Term Stock Incentive Plan (the “FBR Stock Plan”) may be issued under the Plan. During the year ended December 31, 2017, the Company granted restricted stock units representing 871,317 shares of common stock with a total grant date fair value of \$14,577. Share-based compensation expense was \$2,956 for such restricted stock units for the year ended December 31, 2017. In connection with the restructuring discussed in Note 4, the Company recorded additional share-based compensation expense of \$2,391 related to the accelerated vesting of restricted stock awards. Of the \$2,391, \$884 related to former corporate executives of FBR and \$1,507 related to employees in the Capital Markets segment. The total income tax benefit recognized related to the vesting of restricted stock units was \$1,376 for the year ended December 31, 2017.

The restricted stock units generally vest over a period of one to three years based on continued service. In determining the fair value of restricted stock units on the grant date, the fair value is adjusted for (a) estimated forfeitures, (b) expected dividends based on historical patterns and the Company’s anticipated dividend payments over the expected holding period and (c) the risk-free interest rate based on U.S. Treasuries for a maturity matching the expected holding period. As of December 31, 2017, the expected remaining unrecognized share-based compensation expense of \$11,362 will be expensed over a weighted average period of 2.5 years.

A summary of equity incentive award activity for the period from June 1, 2017, the date of the acquisition of FBR, through December 31, 2017 was as follows:

|  | Shares     | Weighted<br>Average<br>Fair<br>Value |
|--|------------|--------------------------------------|
| Nonvested at June 1, 2017, acquisition date of FBR resulting from the exchange of previously existing FBR awards | 530,661    | \$ 14.70                             |
| Granted  | 871,317    | 16.73                                |
| Vested   | (200,905 ) | 15.08                                |
| Forfeited  | (134,940 ) | 15.79                                |
| Nonvested at December 31, 2017   | 1,066,133  | \$ 16.15                             |

The per-share weighted average grant-date fair value of restricted stock units was \$16.73 during the year ended December 31, 2017. There were 200,905 restricted stock units with a fair value of \$3,030 that vested during the year ended December 31, 2017 under the Plan.



**NOTE 17— BENEFIT PLANS AND CAPITAL TRANSACTIONS**

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

In connection with the consummation of the Acquisition, 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, 2017, the Company has 1,925,178 shares of common stock available for future grants under the Incentive Plan.

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

The Company maintains qualified defined contribution 401(k) plans, which cover substantially all of its U.S. employees. Under the plans, participants are entitled to make pre-tax contributions up to the annual maximums established by the Internal Revenue Service. The plan documents permit annual discretionary contributions from the Company. Employer contributions in the amount of \$565 and \$53 were made during the years ended December 31, 2017 and 2016, respectively.

*(c) Public Offering of Common Stock*

On May 10, 2016, the Company completed the public offering of 2,420,980 shares of common stock at a price to the public of \$9.50 per share. The net proceeds from the offering were \$22,759 after deducting underwriting commissions and other offering expenses of \$240.

*(d) Dividends*

On May 4, 2015, our Board of Directors approved a dividend of \$0.06 per share, which was paid on or about June 12, 2015 to stockholders of record on May 22, 2015. On August 10, 2015, our Board of Directors approved a dividend of \$0.20 per share, which was paid on or about September 10, 2015 to stockholders of record on August 25, 2015. On November 9, 2015, our Board of Directors approved a dividend of \$0.06 per share, which was paid on or about December 9, 2015 to stockholders of record on November 24, 2015. On August 4, 2016, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about September 8, 2016 to stockholders of record on August 22, 2016. On November 13, 2016, our Board of Directors approved a regular dividend of \$0.08 per share and a special dividend of \$0.17 per share, which was paid on or about December 14, 2016 to stockholders of record on November 29, 2016. On February 20, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.18 per share, which were paid on or about March 13, 2017 to stockholders of record on March 6, 2017. On May 10, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which were paid on or about May 31, 2017 to stockholders of record on May 23, 2017. On August 7, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.05 per share, which were paid on or about August 29, 2017 to stockholders of record on August 21, 2017. On November 8, 2017, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.04 per share, which were paid on or about November 30, 2017 to stockholders of record on November 22, 2017. On March 7, 2018, our Board of Directors approved a regular quarterly dividend of \$0.08 per share and a special dividend of \$0.08 per share, which will be paid on or about April 3, 2018 to stockholders of record on March 20, 2018. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, 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.

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 (“BRC”), B. Riley FBR, MLV and Wunderlich Securities, Inc. (“WSI”), the Company’s broker-dealer subsidiaries, are registered with the SEC as broker-dealers and are members of the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Company’s broker-dealer subsidiaries are subject to SEC Uniform Net Capital Rule (Rule 15c3-1) which requires the subsidiaries to maintain minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As such, they are subject to the minimum net capital requirements promulgated by the SEC. As of December 31, 2017, BRC had net capital of \$350, which was \$100 in excess of its required net capital of \$250 (net capital ratio of 3.50 to 1); B. Riley FBR had net capital of \$56,462, which was \$54,897 in excess of its required net capital of \$1,565 (net capital ratio of 1.02 to 1); and MLV had net capital of \$496, which was \$396 in excess of its required net capital of \$100 (net capital ratio of 1.25 to 1), and WSI had net capital of \$4,292, which was \$3,653 in excess of its required net capital of \$640 (net capital ratio of 1.17 to 1).

#### **NOTE 19— RELATED PARTY TRANSACTIONS**

At December 31, 2017, amounts due from related parties include \$5,585 from GACP I, L.P., \$52 from GACP II, L.P. and \$52 from CA Global Partners, LLC (“CA Global”) for management fees, incentive fees and other operating expenses. At December 31, 2016, amounts due from related parties include \$2,050 from GACP I, L.P. for management fees, incentive fees and other operating expenses and \$959 from CA Global Partners, LLC (“CA Global”). The amounts receivable and payable from CA Global are comprised of amounts due to and due from CA Global in connection with certain auctions of wholesale and industrial machinery and equipment that they were managed by CA Global on behalf of GA Global Ptrs.

In connection with the offering of \$28,750 of Senior Notes as more fully described in Note 11, certain members of management and the Board of Directors of the Company purchased \$2,731 or 9.5% of the Senior Notes offered by the Company.

**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 investment banking, corporate finance, restructuring, research, wealth management, sales and trading services to corporate, institutional and high net worth clients. The Company also provides auction and liquidation services to help clients dispose of assets that include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property and valuation and appraisal services to clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs. As a result of the acquisition of UOL on July 1, 2016, the Company provides consumer services and products over the Internet.

The Company's business is classified into the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment and Principal Investments - United Online segment. These reportable segments are all distinct businesses, each with a different marketing strategy and management structure.

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2017                    | 2016      | 2015      |
| Capital Markets reportable segment:  |                         |           |           |
| Revenues - Services and fees   | \$ 172,695              | \$ 39,335 | \$ 35,183 |
| Interest income - Securities lending   | 17,028                  | —         | —         |
| Total revenues   | 189,723                 | 39,335    | 35,183    |
| Selling, general, and administrative expenses  | (150,092)               | (32,695)  | (30,229)  |
| Restructuring costs  | (7,855 )                | —         | —         |
| Interest expense - Securities lending  | (12,051 )               | —         | —         |
| Depreciation and amortization  | (3,794 )                | (549 )    | (519 )    |
| Segment income   | 15,931                  | 6,091     | 4,435     |
| Auction and Liquidation reportable segment:  |                         |           |           |
| Revenues - Services and fees   | 47,376                  | 61,891    | 35,633    |
| Revenues - Sale of goods   | 3                       | 25,855    | 10,596    |
| Total revenues   | 47,379                  | 87,746    | 46,229    |
| Direct cost of services  | (27,841 )               | (17,787)  | (15,489)  |
| Cost of goods sold   | (2 )                    | (14,502)  | (3,072 )  |
| Selling, general, and administrative expenses  | (8,329 )                | (14,331)  | (8,170 )  |
| Depreciation and amortization  | (21 )                   | (26 )     | (191 )    |
| Segment income   | 11,186                  | 41,100    | 19,307    |
| Valuation and Appraisal reportable segment:  |                         |           |           |
| Revenues - Services and fees   | 33,331                  | 31,749    | 31,113    |
| Direct cost of services  | (14,876 )               | (13,983)  | (13,560)  |
| Selling, general, and administrative expenses  | (8,561 )                | (8,778 )  | (9,101 )  |
| Depreciation and amortization  | (181 )                  | (107 )    | (137 )    |
| Segment income   | 9,713                   | 8,881     | 8,315     |
| Principal Investments - United Online segment:   |                         |           |           |
| Revenues - Services and fees   | 51,439                  | 31,260    | —         |
| Revenues - Sale of goods   | 304                     | 261       | —         |
| Total revenues   | 51,743                  | 31,521    | —         |
| Direct cost of services  | (12,784 )               | (9,087 )  | —         |
| Cost of goods sold   | (396 )                  | (253 )    | —         |
| Selling, general, and administrative expenses  | (11,304 )               | (5,974 )  | —         |
| Depreciation and amortization  | (7,033 )                | (3,518 )  | —         |
| Restructuring costs  | (723 )                  | (3,474 )  | —         |
| Segment income   | 19,503                  | 9,215     | —         |
| Consolidated operating income from reportable segments   | 56,333                  | 65,287    | 32,057    |
| Corporate and other expenses (including restructuring costs of \$3,796, \$413 and \$1,006 for the years ended December 31, 2017, 2016 and 2015, respectively.) | (27,489 )               | (16,562)  | (9,975 )  |
| Interest income  | 420                     | 318       | 17        |
| Loss from equity investment  | (437 )                  | —         | —         |
| Interest expense   | (8,382 )                | (1,996 )  | (834 )    |

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|   |          |          |          |
|---|----------|----------|----------|
| Income before income taxes                          | 20,445   | 47,047   | 21,265   |
| Provision for income taxes                          | (8,510 ) | (14,321) | (7,688 ) |
| Net income  | 11,935   | 32,726   | 13,577   |
| Net income attributable to noncontrolling interests | 379      | 11,200   | 1,772    |
| Net income attributable to B. Riley Financial, Inc. | \$11,556 | \$21,526 | \$11,805 |

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The following table presents revenues by geographical area:

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2017                    | 2016      | 2015      |
| Revenues:  |                         |           |           |
| Revenues - Services and fees:                    |                         |           |           |
| North America                                    | \$301,881               | \$135,428 | \$77,153  |
| Australia  | 940                     | 26,487    | —         |
| Europe   | 2,020                   | 2,320     | 24,776    |
| Total Revenues - Services and fees               | \$304,841               | \$164,235 | \$101,929 |
| Revenues - Sale of goods                         |                         |           |           |
| North America                                    | \$307                   | \$323     | \$907     |
| Europe   | —                       | 25,793    | 9,689     |
| Total Revenues - Sale of goods                   | \$307                   | \$26,116  | \$10,596  |
| Revenues - Interest income - Securities lending: |                         |           |           |
| North America                                    | \$17,028                | \$—       | \$—       |
| Total Revenues:                                  |                         |           |           |
| North America                                    | \$319,216               | \$135,751 | \$78,060  |
| Australia  | 940                     | 26,487    | —         |
| Europe   | 2,020                   | 28,113    | 34,465    |
| Total Revenues                                   | \$322,176               | \$190,351 | \$112,525 |

The following table presents long-lived assets, which consists of property and equipment, net, by geographical area:

|  | As of<br>December<br>31,<br>2017 | As of<br>December<br>31,<br>2016 |
|--|----------------------------------|----------------------------------|
| Long-lived Assets - Property and Equipment, net: |                                  |                                  |
| North America                                    | \$ 11,977                        | \$ 5,785                         |
| Australia  | —                                | —                                |
| Europe   | —                                | —                                |
| Total  | \$ 11,977                        | \$ 5,785                         |

Segment assets are not reported to, or used by, the Company's Chief Operating Decision Maker to allocate resources to, or assess performance of, the segments and therefore, total segment assets have not been disclosed.

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

|  | Quarter Ended |            |             |             |   |
|--|---------------|------------|-------------|-------------|---|
|  | March 31,     | June 30,   | September   | December    |   |
|  | 2017          | 2017       | 30,<br>2017 | 31,<br>2017 |   |
| Total revenues   | \$52,897      | \$66,676   | \$92,426    | \$110,177   |   |
| Operating income   | \$10,711      | \$2,560    | \$1,356     | \$14,217    |   |
| Income (loss) before income taxes                          | \$10,052      | \$816      | \$(1,235)   | ) \$10,812  |   |
| Benefit from (provision for) income taxes                  | \$3,849       | \$2,547    | \$1,357     | \$(16,263)  | ) |
| Net income (loss)  | \$13,901      | \$3,363    | \$122       | \$(5,451)   | ) |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$14,021      | \$3,280    | \$368       | \$(6,113)   | ) |
| Earnings (loss) per share:                                 |               |            |             |             |   |
| Basic  | \$0.73        | \$0.15     | \$0.01      | \$(0.23)    | ) |
| Diluted  | \$0.71        | \$0.15     | \$0.01      | \$(0.23)    | ) |
| Weighted average shares outstanding:                       |               |            |             |             |   |
| Basic  | 19,181,749    | 21,216,829 | 26,059,490  | 26,150,502  |   |
| Diluted  | 19,626,574    | 22,119,055 | 27,639,862  | 26,150,502  |   |
|  | Quarter Ended |            |             |             |   |
|  | March 31,     | June 30,   | September   | December    |   |
|  | 2016          | 2016       | 30,<br>2016 | 31,<br>2016 |   |
| Total revenues   | \$19,946      | \$20,261   | \$56,966    | \$93,178    |   |
| Operating income   | \$1,665       | \$180      | \$15,422    | \$31,458    |   |
| Income (loss) before income taxes                          | \$1,536       | \$(92)     | ) \$14,457  | \$31,146    |   |
| (Provision for) benefit from income taxes                  | \$(166)       | ) \$65     | \$(6,083)   | ) \$(8,137) | ) |
| Net income (loss)  | \$1,370       | \$(27)     | ) \$8,374   | \$23,009    |   |
| Net income (loss) attributable to B. Riley Financial, Inc. | \$248         | \$(101)    | ) \$8,939   | \$12,440    |   |
| Earnings (loss) per share:                                 |               |            |             |             |   |
| Basic  | \$0.02        | \$(0.01)   | ) \$0.47    | \$0.65      |   |
| Diluted  | \$0.01        | \$(0.01)   | ) \$0.47    | \$0.64      |   |
| Weighted average shares outstanding:                       |               |            |             |             |   |
| Basic  | 16,490,178    | 17,935,254 | 18,977,072  | 19,004,548  |   |
| Diluted  | 16,553,953    | 17,935,254 | 19,208,527  | 19,511,292  |   |