

B. Riley Financial, Inc.
Form 10-K
March 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark
One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the fiscal year ended December 31, 2015

Or
.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 000-54010

B. RILEY FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware **27-0223495**
(State or Other Jurisdiction of
Incorporation or Organization) (I.R.S. Employer Identification No.)

21860 Burbank Boulevard, Suite 300 South **91367**
Woodland Hills, CA
(Address of Principal Executive Offices) (Zip Code)
(818) 884-3737

(Registrant's telephone number, including area code)

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

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

Common Stock, par value \$0.0001 per share

(Title of Class)

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

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: No

The aggregate market value of the registrant's common stock held by non-affiliates, based on the closing price of the registrant's common stock as reported on the OTC Bulletin Board on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$61.0 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 21, 2016 was 16,614,786.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to the registrant's 2016 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, 2015

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	28
Item 2. <u>Properties</u>	29
Item 3. <u>Legal Proceedings</u>	29
Item 4. <u>Mine Safety Disclosures</u>	29
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Selected Financial Data</u>	31
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	52
Item 8. <u>Financial Statements and Supplementary Data</u>	52
Item 9. <u>Changes in and Disagreements With Accountants On Accounting and Financial Disclosure</u>	52
Item 9A. <u>Controls and Procedures</u>	53

Item 9B. <u>Other Information</u>	53
-----------------------------------	----

PART III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	54
--	----

Item 11. <u>Executive Compensation</u>	54
--	----

Item 12. <u>Securities Ownership and Certain Beneficial Owners and Management and Related Stockholder Matters</u>	54
---	----

Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	54
---	----

Item 14. <u>Principal Accounting Fees and Services</u>	54
--	----

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	55
--	----

<u>Signatures</u>	58
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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; and our ability to meet future capital requirements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Item 1. BUSINESS

General

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

§ B. Riley & Co., LLC (“BRC”), a mid-sized, full service investment bank providing financial advisory, corporate finance, research, and sales & trading services to corporate, institutional and high net worth individual clients;

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

○ B. Riley Asset Management, an advisor to certain public and 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 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 three segments: (i) capital markets, (ii) auction and liquidation and (iii) valuation and appraisal.

Capital Markets Segment. Our capital markets segment provides a full array of investment banking, corporate finance, research, wealth management, sales and trading services to corporate, institutional and high net worth clients. Our corporate finance and investment banking services include merger and acquisitions advisory 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 the Company's 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.

Private Placement and Strategic Combination

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

accrued interest of \$0.2 million retired the entire \$48.8 million face amount of the long-term debt at a discount of \$18.8 million. The discount of \$18.8 million has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements.

On June 18, 2014, we completed the acquisition of B. Riley and Co. Inc. (“BRC Inc.”) pursuant to the terms of the Acquisition Agreement (the “Acquisition Agreement”), dated as of May 19, 2014, by and among the Company, Darwin Merger Sub I, Inc., a wholly owned subsidiary of the Company, B. Riley Capital Markets, LLC, a wholly owned subsidiary of the Company (“BCM”), BRC Inc., B. Riley & Co. Holdings, LLC (“BRH”), Riley Investment Management LLC (“RIM”), and collectively with BRC Inc. and BRH, the (“B. Riley Entities”) and Bryant Riley, a director of the Company and principal owner of each of the B. Riley Entities. In connection with the Company’s acquisition of BRC Inc., Darwin Merger Sub I, Inc. merged with and into BRC Inc., and BRC Inc. subsequently merged with and into BCM, with BCM surviving as a wholly owned subsidiary of the Company. We completed the acquisitions of BRH, whose operations include asset management and financial advisory services, and RIM, which provides services to certain pooled investment vehicles, on August 1, 2014.

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

Effective upon the closing of the acquisition on June 18, 2014, Bryant Riley, the principal owner of BRC Inc., was appointed as our Chief Executive Officer and Chairman. As a result of the acquisition of BRC Inc., Bryant Riley owns approximately 24.1% of our outstanding common stock.

Recent Developments

On January 2, 2015, we entered into a purchase agreement to acquire all of the membership interests of MK Capital Advisors, LLC (“MK Capital”), a wealth management business with operations primarily in New York. On February 2, 2015, the pre-closing conditions were satisfied and we completed the purchase of MK Capital. Upon closing, we paid the members of MK Capital \$2.5 million in cash and issued 333,333 shares of our common stock to such members. The purchase agreement also requires the payment of contingent consideration of \$1.25 million in cash and 166,667 shares of our common stock on the first anniversary date of the closing (February 2, 2016) and a final payment of \$1.25 million in cash and 166,666 of our common stock on the second anniversary date of the closing (February 2, 2017). Such contingent consideration is contingent on MK Capital generating 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 anniversary period and the contingent cash consideration and contingent stock consideration for such first anniversary period was paid and issued on February 2, 2016. The acquisition of MK Capital allows the Company to expand into the wealth management business..

In April 2015, we announced the formation of GACP, a wholly owned subsidiary of the Company, and GACP I, L.P., a private direct lending fund of which GACP is the general partner, together with an anchor investment from a business development company advised by a large financial services company. GACP I, L.P. provides asset-based loans to middle market companies. GACP leverages the knowledge and expertise of Great American Group's liquidation and appraisal business to provide insight into asset collateral values that support the asset-based loans. We believe that this internal expertise in assessing collateral values provides GACP with a competitive advantage over other middle market direct lenders. In connection with the formation of GACP I, L.P., we committed to invest \$5.0 million in exchange for an ownership interest of approximately 5% of GACP I, L.P. As of December 31, 2015, we funded \$1.7 million of the \$5.0 million commitment to invest in GACP I, L.P.

In February 2016, we announced the hiring of a senior managing director to form and head our corporate restructuring practice group. Our new senior managing director brings extensive experience in the retail, healthcare, real estate, energy, and communications sectors and has advised municipalities and other governmental entities. He was named the 2014 "Turnaround Consultant of the Year" by The M&A Advisor and a Top 100 Global Restructuring and Turnaround Professional by Global M&A Network.

B. Riley

Investment Banking and Corporate Finance

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

Sales, Trading and Corporate Services

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

Equity Research

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

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

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 for 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 asset based loans to middle market companies.

Wealth Management

In February 2015, we acquired MK Capital, a wealth management business with operations primarily in New York, and subsequently changed the name to “B. Riley Wealth Management”. Our wealth management business provides comprehensive investment advisory services to ultrahigh net worth families and individuals. We provide traditional asset management, alternative asset management and trust and estate planning to our clients. B. Riley Wealth Management is a division of B. Riley Capital Management, LLC, an SEC registered investment advisor.

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 is reported in our capital markets segment for financial reporting purposes.

Great American Group

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

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

Wholesale and Industrial Asset Dispositions

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.

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

Increasingly, we have been webcasting our live auctions over the Internet. This auction format allows online bidders to compete in real time against bidders at the live auction. Bidders can log onto the auction from personal computers, view and bid on lots as they come up for sale, hear the auctioneers as the sale is being conducted and, in some cases, view live streaming video of the auctioneer calling the bids on-site. We believe that this auction format maximizes proceeds by providing access to otherwise unavailable potential bidders, including international participants, thereby increasing competition. In some cases, particularly when assets are located in remote areas that are not easily accessible to bidders, we may determine, in consultation with the client, that a webcast only auction is the most appropriate format. In the online auction format, the sale of assets takes place exclusively online, without a live auctioneer calling the sale. Similar to the timed auctions popularized by online auction sites such as eBay, assets are posted for sale online and buyers can bid on lots and items for a set period of time, usually one week. The online auction format is optimal for clients that have idle assets in quantities insufficient to justify the cost of a live auction. We conduct our wholesale and industrial disposition business throughout parts of North America, Europe, Asia and Australia. Our business is primarily conducted through GA Global Partners, LLC, a 50% owned subsidiary that is controlled by us.

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.

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

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

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

UK Retail Stores

We previously had an additional operating segment relating to UK retail stores. Our UK retail stores segment included the operations of ten retail footwear stores in the United Kingdom as a result of our investment in Shoon Trading Limited (“Shoon”) on May 4, 2012. We ceased to consider this a separate operating segment in August 2013 following the amendment and restatement of a shareholders agreement for Shoon which eliminated our control rights. As a result of this amendment, Shoon’s operating results are not consolidated with the Company’s for any periods after July 31, 2013. Notwithstanding the deconsolidation, our operating results for periods from July 31, 2013 to January 2014 include the income (loss) from our 44.4% equity investment in the common stock of Shoon. In January 2014, Shoon was sold to a third party, and we no longer have a financial interest in the operations of Shoon.

Customers

We serve retail, corporate, capital provider and individual customers across our services lines. Revenues from liquidation service contracts to one retailer represented 12.4% of our total revenues during the year ended December 31, 2015. Revenues from one liquidation service contract and the sale of four oil rigs to one customer represented 10.7% and 12.2% of total revenues during the year ended December 31, 2013. 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

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

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. Previous clients include Target, Cache, Orchard Supply Stores, Blockbuster Video, Borders Group, Circuit City, Friedman's Jewelers, Fortunoff, Office Depot, TJ Hughes, Hancock Fabrics, Movie Gallery, Linens N Things, and Kmart.

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

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, Credit Suisse, GE Capital, JPMorgan Chase, Union Bank of California, and Wells Fargo. Our clients also include private equity firms such as Apollo Management, Goldman Sachs Capital Partners, and Sun Capital Partners.

Competition

B. Riley

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

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

Regulation

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

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

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

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

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

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

Our asset management subsidiary, B. Riley Capital Management, LLC is an SEC-registered investment adviser, 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.

Employees

As of December 31, 2015, we had 217 full time employees and three part time employees. We are not a party to any collective bargaining agreements. We have never experienced a work stoppage or strike and believe that relations with our employees are good.

We rely significantly on the expertise of independent contractors whom we engage in connection with specific transactions. As of December 31, 2015, we maintained a network of approximately 160 independent contractors who we engage from time to time to provide services pursuant to the terms of independent contractor agreements.

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 the Company of 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 BRC Inc., we changed the Company's 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 growth of new service areas;
- The types of fees we charge clients, or other financial arrangements we enter into with clients; and
 - Changes in general economic and market conditions.

We have limited or no control over some of the factors set forth above and, as a result, may be unable to forecast our revenues accurately. For example, our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. A client's acquisition transaction

may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the business of a client or a counterparty. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the contemplated transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific corporate finance, merger and acquisition transactions (often as an advisor in company sale transactions)

and other strategic advisory services, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business, results of operations and financial condition could be adversely affected.

The asset management business is intensely competitive.

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

• investment performance;

• investor perception of the drive, focus and alignment of interest of an investment manager;

- quality of service provided to and duration of relationship with investors;

• business reputation; and

• level of fees and expenses charged for services.

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

- investors may develop concerns that we will allow a fund to grow to the detriment of its performance;

- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;

- some of our competitors may perceive risk differently than we do which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;

- there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into our various lines of business, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and

- other industry participants in the asset management business continuously seek to recruit our best and brightest investment professionals away from us.

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

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

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

to investors in that fund until its returns exceed the relevant highwater mark.

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

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

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

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

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

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

We are subject to risks in using custodians.

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

We may suffer losses if our reputation is harmed.

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

more damaging in our business than in other businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may use our capital, including on a leveraged basis in proprietary investments in both private company and public company securities that may be illiquid and volatile. The equity securities of a privately-held entity in which we make a proprietary investment are likely to be restricted as to resale and may otherwise be highly illiquid. In the case of fund or similar investments, our investments may be illiquid until such investment vehicles are liquidated. We expect that there will be restrictions on our ability to resell the securities of any such company that we acquire for a period of at least six months after we acquire those securities. Thereafter, a public market sale may be subject to volume limitations or dependent upon securing a registration statement for an initial and potentially secondary public offering of the securities. We may make principal investments that are significant relative to the overall capitalization of the investee company and resales of significant amounts of these securities might be subject to significant limitations and adversely affect the market and the sales price for the securities in which we invest. In addition, our principal investments may involve entities or businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and we could lose our entire investment.

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

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

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

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

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

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

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

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

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

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

Widening credit spreads, as well as significant declines in the availability of credit, could adversely affect our ability to borrow on an unsecured basis. Disruptions in the credit markets could make it more difficult and more expensive to

obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing and taking principal positions.

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

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

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

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

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

Our executive officers, directors and their affiliates own or control, in the aggregate, approximately 30.9% of our outstanding common stock as of December 31, 2015. In particular, our Chairman and Chief Executive Officer, Bryant R. Riley, owns or controls, in the aggregate, 3,957,609 shares of our common stock or 24.1% of our outstanding common stock as of December 31, 2015. These stockholders are able to exercise influence over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions, including transactions involving an actual or potential change of control of the company or other transactions that non-controlling stockholders may not deem to be in their best interests. This concentration of ownership may harm the market price of our common stock by, among other things:

- 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 category of assets being liquidated or appraised. We compete with other companies and investment banks to help clients with their corporate finance and capital needs. In addition, we compete with companies and online services in the bidding for assets and inventory to be liquidated. The demand for online solutions continues to grow and our online competitors include other e-commerce providers, auction websites such as eBay, as well as government agencies and traditional liquidators and auctioneers that have created websites to further enhance their product offerings and more efficiently liquidate assets. We expect the market to become even more competitive as the demand for such services continues to increase and traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of wholesale surplus and salvage assets. In addition, manufacturers, retailers and government agencies may decide to create their own websites to sell their own surplus assets and inventory and those of third parties.

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

Some of our competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote more resources to website and systems development than we are able to do. Any inability on our part to effectively compete could have a material adverse effect on our financial condition, growth potential and results of operations.

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

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

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

Our future success depends to a significant degree upon the continued contributions of senior management and the ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations; therefore, we may not be able to retain our existing personnel or fill new positions or vacancies created by expansion or turnover at existing compensation levels. Although we have entered into employment agreements with key members of the senior management team, there can be no assurances such key individuals will remain with us. The loss of any of our executive officers or other key management personnel would disrupt our operations and divert the time and attention of our remaining officers and management personnel which could have an adverse effect on our results of operations and potential for growth.

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

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

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

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

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

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

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

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

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

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

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

Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prior to the declaration of a dividend by our Board of Directors on October 29, 2014 and other dividends during 2015, we historically have not paid dividends on shares of our capital stock. From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. Our Board of Directors may reduce or discontinue dividends at any time for any reason it deems relevant and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will continue to pay dividends with the cash that we do generate. The determination regarding the payment of dividends is subject to the discretion of our Board of Directors, and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will pay dividends in future periods.

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.

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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

28

Item 2. PROPERTIES

Our headquarters are located in Woodland Hills, California in a leased facility. The following table sets forth the location and use of each of our properties, all of which are leased as of December 31, 2015.

Location	Use
Woodland Hills, California	Headquarters; Accounting, Information Technology and Human Resources offices; Appraisal and Auction and Liquidation offices
Los Angeles, California	Capital Markets office
Newport Beach, California	Capital Markets office
San Francisco, California	Capital Markets office
Wilton, Connecticut	Capital Markets office
New York, New York	Capital Markets, Appraisal, Wealth Management, and Legal office
Chicago, Illinois	Appraisal office
Dallas, Texas	Appraisal, Auction & Liquidation office
Needham, Massachusetts	Appraisal office
Toledo, Ohio	Appraisal office
Atlanta, Georgia	Appraisal office
Charlotte, North Carolina	Appraisal office
Winston-Salem, North Carolina	Appraisal office
Milwaukee, Wisconsin	Appraisal office

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

Item 3. LEGAL PROCEEDINGS

From time to time, we are involved in litigation which arises in the normal course of our business operations. Except as set forth below, we believe that we are not currently a party to any proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations:

On January 19, 2015, a complaint (the "Complaint") was filed against Great American Group, LLC, in the United States Bankruptcy Court for the District of Delaware ("Court"), adversary proceeding 15-50057 (MFW), by 9586 LLC asserting claims arising out of the Great American Group, LLC's activities with respect to an auction of equipment in Colorado in October 2012. This proceeding is pending in the bankruptcy cases of Abound Solar Manufacturing, LLC and certain of its affiliates (the "Debtors"), case no. 12-11974. The Complaint asserts claims for breach of contract, negligence, fraud, unjust enrichment, negligent misrepresentation, nuisance, and violations of the Colorado Consumer Protection Act ("CCPA"). In the Complaint, the plaintiff, a former landlord of the Debtors, generally alleges that Great American Group, LLC and a joint venture partner were responsible for contamination while performing services in connection with an auction of solar machinery, and is seeking approximately \$9.7 million in damages. In April 2015, Great American Group, LLC filed a Motion to Dismiss the Complaint. On March 1, 2016, the Court issued its Opinion on Great American Group, LLC's Motion to Dismiss dismissing the unjust enrichment claim and the CCPA claim, but denied the motion with respect to the other claims. We intend to continue to vigorously defend this action which we consider to be meritless. An adverse judgment in this matter could materially and adversely affect the Company and its financial condition.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

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

Stock Market and Other Information

Our common stock is traded on the NASDAQ Capital Market under the symbol: “RILY”. Prior to July 16, 2015, our common stock was traded on the OTC Bulletin Board under the symbol “RILY” from November 7, 2014 to July 16, 2015. Prior to November 7, 2014, our common stock was traded on the OTC Bulletin Board under the symbol “GAMR”.

The following table sets forth the high and low closing sale prices of a share of our Common Stock as reported by the OTC Bulletin Board or NASDAQ Capital Market (as applicable) on a quarterly basis for the years ended December 31, 2014 and 2015.

The prices during the periods for which our shares were traded on the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The liquidity of our shares on the NASDAQ Capital Market is extremely limited, and such liquidity was extremely limited during the periods during which our shares were traded on the OTC Bulletin Board, and prices quoted may not be a reliable indication of the value of our Common Stock.

	High	Low
2014:		
Quarter ended March 31, 2014	\$6.00	\$5.00
Quarter ended June 30, 2014	10.40	2.80
Quarter ended September 30, 2014	8.15	7.40
Quarter ended December 31, 2014	9.90	7.45
2015:		
Quarter ended March 31, 2015	\$13.75	\$9.50
Quarter ended June 30, 2015	12.50	9.45
Quarter ended September 30, 2015	11.00	9.50
Quarter ended December 31, 2015	10.16	9.50

As of March 15, 2016, there were approximately 102 holders of record of our Common Stock. This number does not include beneficial owners holding shares through nominees or in “street” name.

Dividend Policy

On October 29, 2014, our Board of Directors approved a dividend of \$0.03 per share, which was paid on or about December 9, 2014 to stockholders of record on November 18, 2014. On May 4, 2015, the Company's 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, the Company's 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. Our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of and for each of the five fiscal years ended December 31, 2015, and is derived from our Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2015 and 2014, and for each of the years in the three-year period ended December 31, 2015, 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)**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Revenues:					
Services and fees	\$ 101,929	\$ 67,257	\$ 59,967	\$ 65,624	\$ 60,627
Sale of goods	10,596	9,859	16,165	18,312	2,899
Total revenues	112,525	77,116	76,132	83,936	63,526
Operating expenses:					
Direct cost of services	29,049	23,466	24,146	23,911	19,749
Cost of goods sold	3,072	14,080	11,506	12,750	3,391
Selling, general and administrative	58,322	44,453	36,382	39,834	32,946
Restructuring charge	—	2,548	—	—	—
Total operating expenses	90,443	84,547	72,034	76,495	56,086
Operating income (loss)	22,082	(7,431)	4,098	7,441	7,440
Other income (expense):					
Interest income	17	12	26	201	476
Loss from equity investment in Great American Group Real Estate, LLC and Shoon Trading Limited	—	—	(177)	(120)	(369)
Gain from bargain purchase	—	—	—	1,366	—
Interest expense	(834)	(1,262)	(2,667)	(2,612)	(4,885)
Income (loss) from operations before income taxes	21,265	(8,681)	1,280	6,276	2,662
(Provision) benefit for income taxes	(7,688)	2,886	(704)	(1,936)	(2,060)
Net income (loss)	13,577	(5,795)	576	4,340	602
Net income (loss) attributable to noncontrolling interests	1,772	6	(482)	819	—
Net income (loss) attributable to B. Riley Financial, Inc.	\$ 11,805	\$ (5,801)	\$ 1,058	\$ 3,521	\$ 602
Basic earnings (loss) per share	\$ 0.73	\$ (0.60)	\$ 0.74	\$ 2.46	\$ 0.42
Diluted earnings (loss) per share	\$ 0.73	\$ (0.60)	\$ 0.71	\$ 2.38	\$ 0.41

Weighted average basic shares outstanding	16,221,040	9,612,154	1,434,107	1,434,107	1,434,107
Weighted average diluted shares outstanding	16,265,915	9,612,154	1,495,328	1,480,671	1,477,548

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Cash and cash equivalents	\$30,012	\$21,600	\$18,867	\$18,721	\$15,034
Restricted cash	51	7,657	325	7,923	—
Securities owned. At fair value	25,543	17,955	—	—	—
Total assets	132,420	138,990	73,677	80,583	76,358
Total current liabilities	21,950	41,911	29,069	34,275	32,394
Total long-term liabilities	1,150	—	48,759	50,483	52,220
Total equity (deficit)	109,320	97,079	(4,151)	(4,175)	(8,256)

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Annual Report to conform such statements to actual results or to changes in our expectations.

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

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

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

Overview

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

§ B. Riley & Co., LLC (“BRC”), a mid-sized, full service investment bank providing financial advisory, corporate finance, research, and sales & trading services to corporate, institutional and high net worth individual clients;

§ B. Riley Capital Management, LLC, an Securities and Exchange Commission (“SEC”) registered Investment Advisor, which includes B. Riley Asset Management, a provider of investment products 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 valuation services for asset based lenders and corporate clients.

For financial reporting purposes we classify our businesses into three segments: (i) capital markets, (ii) auction and liquidation and (iii) valuation and appraisal.

Capital Markets Segment. Our capital markets segment provides a full array of investment banking, corporate finance, research, wealth management, sales and trading services to corporate, institutional and high net worth clients. Our corporate finance and investment banking services include merger and acquisitions advisory 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 the Company's 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.

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.

UK Retail Stores. We previously had an additional operating segment relating to UK retail stores. Our UK retail stores segment included the operations of retail footwear stores in the United Kingdom as a result of our investment in Shoon Trading Limited ("Shoon") on May 4, 2012. Revenues from the sale of goods in our UK retail stores segment were recognized as revenue upon the sale of product to retail customers. Our net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, and other promotional allowances and are recorded net of sales or value added tax. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales. We ceased to consider this a separate operating segment in August 2013 following the amendment and restatement of a shareholders agreement for Shoon which eliminated our control rights. As a result of this amendment, Shoon's operating results are not consolidated with the Company's for any periods after July 31, 2013. Notwithstanding the deconsolidation, our operating results for periods from July 31, 2013 to January 2014 include the income (loss) from our 44.4% equity investment in the common stock of Shoon. In January 2014, Shoon was sold to a third party, and we no longer have a financial interest in the operations of Shoon.

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, 2015, 2014 and 2013, revenues from our auction and liquidation segment were 41.1%, 35.0% and 55.7% 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 12.4% of our total revenues during the year ended December 31, 2015. Revenues from liquidation service contracts and financing activities to one retailer and the sale of four oil rigs to one customer represented 10.7% and 12.2% of our total revenues during the year ended December 31, 2013. 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.

Private Placement and Strategic Combination

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

On June 18, 2014, we completed the acquisition of B. Riley and Co. Inc. ("BRC Inc.") pursuant to the terms of the Acquisition Agreement (the "Acquisition Agreement"), dated as of May 19, 2014, by and among the Company, Darwin Merger Sub I, Inc., a wholly owned subsidiary of the Company, B. Riley Capital Markets, LLC, a wholly owned subsidiary of the Company ("BCM"), BRC Inc., B. Riley & Co. Holdings, LLC ("BRH"), Riley Investment Management LLC ("RIM"), and collectively with BRC Inc. and BRH, the ("B. Riley Entities") and Bryant Riley, a director of the Company and principal owner of each of the B. Riley Entities. In connection with the Company's acquisition of BRC Inc., Darwin Merger Sub I, Inc. merged with and into BRC Inc., and BRC Inc. subsequently merged with and into BCM, with BCM surviving as a wholly owned subsidiary of the Company. We completed the acquisitions of BRH, whose operations include asset management and financial advisory services, and RIM, which provides services to certain pooled investment vehicles, on August 1, 2014.

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

Effective upon the closing of the acquisition on June 18, 2014, Bryant Riley, the principal owner of BRC Inc., was appointed as our Chief Executive Officer and Chairman. As a result of the acquisition of BRC Inc., Bryant Riley owns approximately 24.1% of our outstanding common stock.

Recent Developments

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

On January 2, 2015, we entered into a purchase agreement to acquire all of the membership interests of MK Capital Advisors, LLC ("MK Capital"), a wealth management business with operations primarily in New York. On February 2, 2015, the pre-closing conditions were satisfied and we completed the purchase of MK Capital. Upon closing, we paid the members of MK Capital \$2.5 million in cash and issued 333,333 shares of our common stock to such members. The purchase agreement also requires the payment of contingent consideration of \$1.25 million in cash and 166,667 shares of our common stock on the first anniversary date of the closing (February 2, 2016) and a final payment of \$1.25 million in cash and 166,666 of our common stock on the second anniversary date of the closing (February 2, 2017). Such contingent consideration is contingent on MK Capital generating 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 anniversary period and the contingent cash consideration and contingent stock consideration for such first anniversary period was paid and issued on February 2, 2016. The acquisition of MK Capital allows the Company to expand into the wealth management business.

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

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

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

In April 2015, we announced the formation of GACP, a wholly owned subsidiary of the Company, and GACP I, L.P., a private direct lending fund of which GACP is the general partner, together with an anchor investment from a business development company advised by a large financial services company. GACP is the general partner of GACP I, L.P., a direct lending fund that provides asset-based loans to middle market companies. GACP leverages the knowledge and expertise of Great American Group's liquidation and appraisal business to provide insight into asset collateral values that support the asset-based loans. We believe that this internal expertise in assessing collateral values provides GACP with a competitive advantage over other middle market direct lenders. In connection with the formation of GACP I, L.P., we committed to invest \$5.0 million in exchange for an ownership interest of approximately 5% of GACP I, L.P. As of December 31, 2015, we funded \$1.7 million of the \$5.0 million commitment to invest in GACP I, L.P.

In June 2015, we entered into an auction services agreement to auction approximately \$14.7 million of transportation and field services equipment that is used in the oil and gas industry in Canada. In connection with the auction services agreement, we provided a minimum recovery value of the machinery and equipment that is to be sold on behalf of the receiver. The auction of the machinery and equipment was conducted in September 2015 and the proceeds from the auction exceeded the minimum recovery value and the total fees and reimbursed expenses recognized as revenues were \$2.7 million.

Results of Operations

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

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Consolidated Statements of Operations

(Dollars in thousands)

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	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount	%	Amount	%
Revenues:				
Services and fees	\$ 101,929	90.6 %	\$ 67,257	87.2 %
Sale of goods	10,596	9.4 %	9,859	12.8 %
Total revenues	112,525	100.0 %	77,116	100.0 %
Operating expenses:				
Direct cost of services	29,049	25.8 %	23,466	30.4 %
Cost of goods sold	3,072	2.7 %	14,080	18.3 %
Selling, general and administrative expenses	58,322	51.9 %	44,453	57.6 %
Restructuring charge	-	0.0 %	2,548	3.3 %
Total operating expenses	90,443	80.4 %	84,547	109.6 %
Operating income (loss)	22,082	19.6 %	(7,431)	-9.6 %
Other income (expense):				
Interest income	17	0.0 %	12	0.0 %
Interest expense	(834)	-0.7 %	(1,262)	-1.6 %
Income (loss) before income taxes	21,265	18.9 %	(8,681)	-11.2 %
(Provision) benefit for income taxes	(7,688)	-6.8 %	2,886	3.6 %
Net income (loss)	13,577	12.1 %	(5,795)	-7.6 %
Net income (loss) attributable to noncontrolling interests	1,772	1.6 %	6	0.0 %
Net income (loss) attributable to B. Riley Financial, Inc.	\$ 11,805	10.5 %	\$ (5,801)	-7.6 %

Revenues

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

	Year Ended December 31, 2015		Year Ended December 31, 2014		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and Fees:						
Capital Markets segment	\$ 35,183	31.3 %	\$ 19,420	25.2 %	\$ 15,763	81.2 %
Auction and Liquidation segment	35,633	31.7 %	17,166	22.3 %	18,467	107.6 %
Valuation and Appraisal segment	31,113	27.6 %	30,671	39.7 %	442	1.4 %
Subtotal	101,929	90.6 %	67,257	87.2 %	34,672	51.6 %
Revenues - Sale of goods						
Auction and Liquidation segment	10,596	9.4 %	9,859	12.8 %	737	7.5 %
Total revenues	\$ 112,525	100.0 %	\$ 77,116	100.0 %	\$ 35,409	45.9 %

Total revenues increased \$35.4 million to \$112.5 million during the year ended December 31, 2015 from \$77.1 million during the year ended December 31, 2014. The increase in revenues during the year ended December 31, 2015 was primarily due to an increase in revenues from services and fees of \$34.7 million and an increase in revenues from the sale of goods of \$0.7 million. The increase in revenues from services and fees of \$34.7 million in 2015 was primarily due to an increase in revenues of (a) \$15.8 million from our capital markets segment which includes the operating results of BRC Inc., which we acquired on June 18, 2014 and the operations of MK Capital which we acquired on February 2, 2015, (b) \$18.5 million in the auction and liquidation segment, and (c) \$0.4 million in the valuation and appraisal segment.

Revenues from services and fees in the capital markets segment were \$35.2 million during the year ended December 31, 2015. Capital markets segment revenues include revenues from BRC Inc. and MK Capital during 2015 related to investment banking fees of \$16.7 million, commissions, fees and other income primarily earned from research, sales and trading, and wealth management services of \$18.3 million, and trading gains of \$0.2 million. Revenues from services and fees in the capital markets segment were \$19.4 million during the year ended December 31, 2014. These revenues included revenues for the period from June 18, 2014 to December 31, 2014 as a result of our acquisition of BRC Inc. and revenues for the period February 2, 2015 to December 31, 2015 as a result of our acquisition of MK Capital. Capital markets segment revenues in 2014 include revenues from investment banking fees of \$10.3 million, commissions and other income primarily earned from research, sales and trading of \$7.8 million, and trading income of \$1.3 million.

Revenues from services and fees in the auction and liquidation solutions increased \$18.5 million, or 107.6%, to \$35.6 million during the year ended December 31, 2015 from \$17.2 million during the year ended December 31, 2014. The increase in revenues from services and fees in 2015 was primarily due to our participation in the joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada. The joint venture provided Target Canada with a minimum guarantee of amounts to be realized from the liquidation of inventory. The liquidation sale of inventory was completed in April 2015 and the amounts realized from the liquidation of inventory exceeded the minimum guarantee. Revenues from our participation in the joint venture were \$13.9 million during the year ended December 31, 2015. The increase in revenues was also due to an increase in the mix of fee related retail liquidation engagements in 2015 as compared to 2014. In the comparable period in 2014, revenues included a loss accrual \$6.1 million for one retail liquidation engagement where we provided a minimum guarantee of amounts to be realized from the liquidation of inventory and we did not have any large retail liquidation engagements that generated a significant amount of revenues from services and fees.

Revenues from services and fees in the valuation and appraisal segment increased \$0.4 million, or 1.4%, to \$31.1 million during the year ended December 31, 2015 from \$30.7 million during the year ended December 31, 2014. The increase in revenues was primarily due to increases of (a) \$1.6 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$1.3 million for appraisals of machinery and equipment and intellectual property. These increases were offset by a decrease in revenues of (a) \$1.6 million related to appraisal engagements where we perform valuations of intellectual property and business valuations, and (b) \$0.9 million from our appraisal operations in the United Kingdom which we restructured in the third quarter of 2014.

Sale of Goods, Cost of Goods Sold and Gross Margin

	Year Ended December 31, 2015	Year Ended December 31, 2014		
Revenues - Sale of Goods	\$ 10,596	\$ 9,859		
Cost of Goods Sold	3,072	14,080		
Gross margin	\$ 7,524	\$ (4,221)	
Gross margin percentage	71.0	% -42.8	%	

Revenues from the sale of goods increased \$0.7 million, to \$10.6 million during the year ended December 31, 2015 from \$9.9 during the year ended December 31, 2014. 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 where we took title to the goods and operated the Schoenenreus stores during the liquidation period. 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. Revenues from the sale of goods in 2014 was primarily due to the sale of goods related to an auction of an industrial plant where we sold machinery and equipment at an auction we held during the first quarter of 2014. Cost of goods sold in 2014 was \$14.1 million resulting in a gross margin of \$(4.2) million or (42.8)% during the year ended December 31, 2014. The gross margin in 2014 was negatively impacted by \$2.9 million of impairment and inventory valuation charges in the fourth quarter of 2014 and \$1.7 million of inventory valuation charges during the third quarter of 2014. The impairment and inventory valuation charges in the fourth quarter of 2014 were comprised of a \$1.2 million impairment charge we incurred as a result of the expiration of the lease finance receivable on December 15, 2014 and an inventory valuation charge of \$2.1 million related to another oil rig and aircraft parts that are included in goods held for sale at December 31, 2014. The \$1.7 million impairment charge in the third quarter of 2014 was incurred to write down the carrying value of certain goods held for sale or auction relating to machinery and equipment that we sold at auction in the third quarter of 2014.

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, 2015 and 2014 are as follows:

Year Ended December 31, 2015		Year Ended December 31, 2014	
Auction and	Valuation and	Auction and	Valuation and

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	Liquidation Appraisal Segment		Total	Liquidation Appraisal Segment		Total
Revenues - Services and fees	\$ 35,633	\$ 31,113		\$ 17,166	\$ 30,671	
Direct cost of services	15,489	13,560	\$ 29,049	10,719	12,747	\$ 23,466
Gross margin on services and fees	\$ 20,144	\$ 17,553		\$ 6,447	\$ 17,924	
Gross margin percentage	56.5 %	56.4 %		37.6 %	58.4 %	

Total direct costs increased \$5.5 million, to \$29.0 million during the year ended December 31, 2015 from \$23.5 million during the year ended December 31, 2014. Direct costs of services in the auction and liquidation segment increased \$4.8 million to \$15.5 million during the year ended December 31, 2015 from \$10.7 million during the year ended December 31, 2014. The increase in expenses was primarily due to an increase in 2015 in the number of fee and commission type engagements where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2014. Direct costs of services in the valuation and appraisal segment increased \$0.8 million, to \$13.5 million during the year ended December 31, 2015 from \$12.7 million during the year ended December 31, 2014. 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 2015.

Gross margin in the auction and liquidation segment for services and fees increased to 56.5% of revenues during the year ended December 31, 2015, as compared to 37.6% of revenues during the year ended December 31, 2014. The increase in the gross margin during the year ended December 31, 2015 was primarily due to a change in the mix of fee type engagements in 2015 as compared to the same period in 2014 and the impact of the revenues we earned from our participation in the joint venture involving the liquidation of inventory for the going-out-of-business sale of 133 Target stores located in Canada.

Gross margins in the valuation and appraisal segment decreased to 56.4% of revenues during the year ended December 31, 2015 as compared to 58.4% of revenues during the year ended December 31, 2014. The decrease in the gross margin is primarily due to an increase in payroll and related expenses from an increase in headcount during the fourth quarter of 2015 as compared to same period in 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses during the years ended December 31, 2015 and 2014 were comprised of the following:

Selling, General and Administrative Expenses by Segment

(Dollars in thousands)

	Year Ended		Year Ended		Change	
	December 31, 2015		December 31, 2014			
	Amount	%	Amount	%	Amount	%
Capital Markets segment	\$ 30,748	52.7 %	\$ 14,378	32.3 %	\$ 16,370	113.9 %
Auction and Liquidation segment	8,361	14.3 %	8,588	19.3 %	(227)	-2.6 %
Valuation and Appraisal segment	9,238	15.8 %	10,872	24.5 %	(1,634)	-15.0 %
Corporate and Other segment	9,975	17.2 %	10,615	23.9 %	(640)	-6.0 %
Total selling, general & administrative expenses	\$ 58,322	100.0 %	\$ 44,453	100.0 %	\$ 13,869	31.2 %

Total selling, general and administrative expenses increased \$13.9 million, or 31.2%, to \$58.3 million during the year ended December 31, 2015 from \$44.4 million for the year ended December 31, 2014. The increase was primarily due to an increase in selling, general and administrative expenses of \$16.4 million in the capital markets segment as a result of the acquisition of BRC Inc. on June 18, 2014 and MK Capital on February 2, 2015, offset by decreases in selling, general and administrative expenses of (a) \$0.2 million in the auction and liquidation segment, (b) \$1.6 million in the valuation and appraisal segment and (c) \$0.6 million in corporate and other.

Selling, general and administrative expenses in the capital markets segment were \$30.7 million during the year ended December 31, 2015. The operating expenses for the capital markets segment in 2015 reflect the operating expenses of BRC Inc. for the entire year ended December 31, 2015 and the operating expenses of MK Capital for the period from February 2, 2015, the date of our acquisition, through December 31, 2015. In the prior year the operating expenses in our capital markets segment only included the operating expenses of BRC Inc. for the period from June 18, 2014, the date of acquisition, through December 31, 2014.

Selling, general and administrative expenses in the auction and liquidation segment decreased \$0.2 million, or 2.6%, to \$8.4 million during the year ended December 31, 2015 from \$8.6 million for the year ended December 31, 2014. The decrease was primarily due to a decrease in payroll and other operating expenses related to the operations of our former real estate advisory services division.

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$1.6 million, or 15.0%, to \$9.2 million during year ended December 31, 2015 from \$10.8 million for the year ended December 31, 2014. The decrease of \$1.6 million was primarily due to a decrease in operating expenses from our valuation and appraisal business in Europe resulting from the restructuring of the operations in the third quarter of 2014.

Selling, general and administrative expenses for corporate and other decreased \$0.6 million, or 6.0%, to \$10.0 million during the year ended December 31, 2015 from \$10.6 million for the year ended December 31, 2014. The decrease was primarily due to a decrease in professional fees that were incurred in 2014 related to transaction expenses for the acquisition of BRC Inc. on June 18, 2014.

Restructuring Charge. During the year ended December 31, 2014, we incurred a restructuring charge of \$2.5 million. There was no restructuring charge during the year ended December 31, 2015. The restructuring charge was primarily for the costs we incurred from a reduction in force from some of our corporate employees and a significant number of our employees in the United Kingdom and the closure of one of our offices in Deerfield, Illinois as discussed above.

Other Income (Expense). Other income included interest income of less than \$0.1 million during the year ended December 31, 2015 and 2014.

Interest Expense. Interest expense was \$0.8 million during the year ended December 31, 2015 as compared to \$1.3 million during the year ended December 31, 2014. The decrease in interest expense during the year ended December 31, 2015 was primarily due to a decrease in interest expense of \$0.8 million as a result of the early repayment of a portion of the principal balance of the related party notes payable that accrued interest at 12.0% in January 2014, the retirement of \$48.8 million of face amount of long-term debt payable to Andrew Gumaer and Harvey Yellen on June 5, 2014 and the repayment of the remaining principal balance of the related party notes payable of \$1.0 million on July 31, 2014 as more fully discussed in Note 11 to the consolidated financial statements. The decrease in interest expense was offset by imputed interest expense of \$0.2 million related to the contingent consideration for the acquisition of MK Capital in February 2015 and an increase in interest expense on the revolving line of credit.

Income (Loss) Before Income Taxes. Income before income taxes was \$21.3 million during the year ended December 31, 2015 as compared to a loss before income taxes of \$8.7 million during the year ended December 31, 2014. The increase in income before income taxes of \$30.0 million during the year ended December 31, 2015 as compared to the loss in 2014 was primarily due to an increase in operating income of (a) \$27.0 million in our auction and liquidation segment, (b) \$1.5 million in our valuation and appraisal segment, and (c) a decrease in corporate overhead and interest expense of \$2.0 million, offset by a decrease in operating income of \$0.6 million in our capital markets segment.

(Provision) Benefit For Income Taxes. Provision for income taxes was \$7.7 million during the year ended December 31, 2015 as compared to a benefit for income taxes of \$2.9 million during the year ended December 31, 2014. The effective income tax rate was 36.2% during the year ended December 31, 2015 and a benefit of 33.2% during the year ended December 31, 2014.

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 that we do not own. The net income attributable to noncontrolling interests was \$1.8 million during the year ended December 31, 2015 compared to net income attributable to noncontrolling interests of \$0.1 million during the year ended December 31, 2014.

Net Income (Loss) Attributable to the Company. Net income attributable to the Company for the year ended December 31, 2015 was \$11.8 million compared to a net loss of \$5.8 million during the year ended December 31, 2014. The increase in net income during the year ended December 31, 2015 as compared to the same period in 2014 was primarily due to an increase in operating income in the auction and liquidation segment as discussed above and the impact of the restructuring charge of \$2.5 million incurred during 2014 as more fully described above.

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

Consolidated Statements of Operations

(Dollars in thousands)

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Amount	%	Amount	%
Revenues:				
Services and fees	\$ 67,257	87.2 %	\$ 59,967	78.8 %
Sale of goods	9,859	12.8 %	16,165	21.2 %
Total revenues	77,116	100.0 %	76,132	100.0 %
Operating expenses:				
Direct cost of services	23,466	30.4 %	24,146	31.7 %
Cost of goods sold	14,080	18.3 %	11,506	15.1 %
Selling, general and administrative expenses	44,453	57.6 %	36,382	47.8 %
Restructuring charge	2,548	3.3 %	-	0.0 %
Total operating expenses	84,547	109.6 %	72,034	94.6 %
Operating (loss) income	(7,431)	-9.6 %	4,098	5.4 %

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Other income (expense):

Interest income	12	0.0	%	26	0.0	%
Loss from equity investment in Great American Real Estate, LLC and Shoon Trading Limited	-	0.0	%	(177)	-0.2	%
Interest expense	(1,262)	-1.6	%	(2,667)	-3.5	%
(Loss) income before income taxes	(8,681)	-11.2	%	1,280	1.7	%
Benefit (provision) for income taxes	2,886	3.6	%	(704)	-0.9	%
Net (loss) income	(5,795)	-7.6	%	576	0.8	%
Net income (loss) attributable to noncontrolling interests	6	0.0	%	(482)	-0.6	%
Net (loss) income attributable to B. Riley Financial, Inc.	\$ (5,801)	-7.6	%	\$ 1,058	1.4	%

Revenues

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

	Year Ended December 31, 2014		Year Ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and Fees:						
Capital Markets segment	\$ 19,420	25.2 %	\$ -	0.0 %	\$ 19,420	n/m
Auction and Liquidation segment	17,166	22.3 %	32,409	42.6 %	(15,243)	-47.0%
Valuation and Appraisal segment	30,671	39.7 %	27,558	36.2 %	3,113	11.3 %
Subtotal	67,257	87.2 %	59,967	78.8 %	7,290	12.2 %
Revenues - Sale of goods						
Auction and Liquidation segment	9,859	12.8 %	9,963	13.1 %	(104)	-1.0 %
UK Retail Stores segment	-	n/m	6,202	8.1 %	(6,202)	n/m
Subtotal	9,859	12.8 %	16,165	21.2 %	(6,306)	-39.0%