B. Riley Financial, Inc.
Form 10-K
March 10, 2017

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, 2016

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.)

21255 Burbank Boulevard, Suite 400

Woodland Hills, CA	**91367**
(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 x

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 x

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: x 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: x 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 x

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

The aggregate market value of the registrant's common stock held by non-affiliates, based on the closing price of the registrant's common stock as reported on the NASDAQ Capital Market on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $123.3 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 10, 2017 was 19,307,008.

EXPLANATORY NOTE

The registrant met the "accelerated filer" requirements as of the end of its 2016 fiscal year pursuant to Rule 12b-2 of the Securities Exchange Act of 1934, as amended. However, pursuant to Rule 12b-2 and SEC Release No. 33-8876, the registrant (as a smaller reporting company transitioning to the larger reporting company system based on its public float as of June 30, 2016) is not required to satisfy the larger reporting company requirements until its first Quarterly Report on Form 10-Q for its 2017 fiscal year and thus remains eligible to use the scaled disclosure requirements applicable to smaller reporting companies under Item 10 of Regulation S-K under the Securities Act of 1933, as amended, in this Annual Report on Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to the registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

B. RILEY FINANCIAL, INC.

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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,” “seek,” “may,” “will,” “predict,” “potential,” “continue,” “estimate” and similar expressions are generally intended to identify forward-looking statements, but are not exclusive means of identifying forward-looking statements in this Annual Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the Securities and Exchange Commission (the “SEC”). Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed in “Part I—Item 1A. Risk Factors” contained in this Annual Report. Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in “guarantee” based engagements; competition in the asset management business; potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our auction and liquidations business; the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities as necessary; failure to comply with the terms of our credit agreements; our ability to meet future capital requirements; our ability to realize the benefits of our completed and proposed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; the possibility that our proposed acquisition of FBR & Co, Inc. (“FBR”) does not close when expected or at all; our ability to promptly and effectively integrate our business with that of FBR if such transaction closes; the reaction to the FBR acquisition of our and FBR’s customers, employees and counterparties; and the diversion of management time on acquisition-related issues. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as otherwise required by the context, references in this Annual Report to “the Company,” “B. Riley,” “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 operating 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, a Securities and Exchange Commission (“SEC”) registered investment advisor, which includes:

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

o B. Riley Wealth Management (formally 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

o 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;

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§ 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; and

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

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

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

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

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

Auction and Liquidation Segment. Our auction and liquidation segment utilizes our significant industry experience, a scalable network of independent contractors and industry-specific advisors to tailor our services to the specific needs of a multitude of clients, logistical challenges and distressed circumstances. Furthermore, our scale and pool of resources allow us to offer our services across North American as well as parts of Europe, Asia and Australia. Our auction and liquidation segment operates through two main divisions, retail store liquidations and wholesale and industrial assets dispositions. Our wholesale and industrial assets disposition division operates through limited liability companies that are controlled by us.

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Valuation and Appraisal Segment. Our valuation and appraisal segment provides valuation and appraisal services to financial institutions, lenders, private equity firms and other providers of capital. These services primarily include the valuation of assets (i) for purposes of determining and monitoring the value of collateral securing financial transactions and loan arrangements and (ii) in connection with potential business combinations. Our valuation and appraisal segment operates through limited liability companies that are majority owned by us.

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

Recent Developments

On May 4, 2016, we entered into a definitive agreement and plan of merger to acquire UOL for $11.00 per share, or approximately $169.4 million in aggregate merger consideration. The acquisition was completed on July 1, 2016 and UOL became a wholly-owned subsidiary of B. Riley.

On May 10, 2016, we completed the public offering of 2,420,980 shares of common stock at a price to the public of $9.50 per share. The net proceeds from the offering were $22.8 million, after deducting underwriting commissions and other offering expenses. Certain of our officers, directors and employees, including Bryant R. Riley, our Chairman and Chief Executive Officer, and certain of his affiliates, participated in the offering and purchased in the aggregate 371,513 of the shares sold in the offering.

On November 2, 2016, we issued $28.75 million of Senior Notes due in 2021, interest payable quarterly at 7.5% commencing January 31, 2017. The Senior Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the Senior Notes, we received net proceeds of $27.7 million (after underwriting commissions and fees of $1.1 million). In connection with the offering of $28.75 million of Senior Notes, certain members of our management and Board of Directors purchased $2.7 million or 9.5% of the Senior Notes we offered.

On February 17, 2017, we entered into an agreement and plan of merger (the “Merger Agreement”) to acquire FBR, an investment banking and brokerage firm that provides investment banking, M&A advisory, institutional brokerage, and research services, pursuant to which FBR will merge with and into us (or a subsidiary of us), with us (or our subsidiary) as the surviving corporation (the “Merger”). Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each outstanding share of FBR common stock, excluding certain specified shares, will be converted into the right to receive 0.671 of a share of our common stock. We currently estimate that approximately 5.3 million shares of our common stock will be issued in connection with this transaction, with an assumed value of approximately $93.0 million based on the closing price of our common stock on February 17, 2017. In addition, prior to the closing of the Merger, the board of directors of FBR may declare and pay a cash dividend to holders of FBR Common Stock and FBR equity awards. Such dividend on a per share basis will be equal to the value of cash and certain specified investments on FBR's balance sheet in excess of $33.5 million divided by the total number of fully diluted shares of FBR Common Stock outstanding (subject to certain adjustments if such dividend would be equal to or more than $8.50 per fully diluted share of FBR Common Stock). Consummation of the Merger is subject to certain closing conditions, as set forth in the Merger Agreement, including the approval of the Merger by our shareholders and the shareholders of FBR. The Merger is currently expected to close in the second quarter of 2017. If the Merger is consummated, we anticipate that FBR's operations will be included in our capital markets segment.

The Merger Agreement further provides that, at or prior to the effective time of the Merger, the number of directors comprising our full Board of Directors will be increased by one, with Richard J. Hendrix, Chairman, President and Chief Executive Officer of FBR, being appointed to fill the new seat in accordance with the terms of the employment agreement described below. In connection with the execution of the Merger Agreement, on February 17, 2017, BRC and we entered into an employment agreement with Mr. Hendrix, which provides that, following the closing of the Merger, Mr. Hendrix will become President and Chief Executive Officer of the combined business of FBR and BRC and will be appointed to our Board of Directors, contingent on Mr. Hendrix remaining employed by FBR through the closing of the Merger. In addition, on February 17, 2017, certain officers and directors of FBR entered into voting agreements with us with respect to shares of FBR common stock held by such officers or directors, and certain of our officers and directors entered into voting agreements with FBR with respect to shares of our common stock held by such officers or directors, which generally require each stockholder party thereto in his or her capacity as a stockholder, to vote all of the shares of common stock over which such party has voting control in favor of adoption of the Merger Agreement and certain related matters and against alternative transactions and generally prohibit them from transferring their shares of common stock, subject to certain exceptions.

B. Riley

Investment Banking and Corporate Finance

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

Sales, Trading and Corporate Services

Our sales and trading professionals distribute B. Riley proprietary research products to our institutional investor clients and high net worth individuals. B. Riley 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 17 consecutive annual institutional investor conferences.

Capital Management

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

Wealth Management

Our wealth management business provides comprehensive investment advisory services to ultra-high net worth families and individuals as well as 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 assists with the 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 could not conduct on our own due to the significant capital outlay involved, number of independent contractors required or financial risk associated with the particular engagement. We act as the lead partner in many of the collaborative arrangements that we enter into, meaning that we have primary responsibility for the due diligence, contract negotiation and execution of the engagement.

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.

Principal Investments - United Online

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

Internet Access

Our Internet access services consist of dial-up, mobile broadband and, to a much lesser extent, DSL services. Our dial-up Internet access services are provided on both a free and pay basis, with the free services subject to hourly and other limitations. Basic pay dial-up Internet access services include accelerated dial-up Internet access and an email account. Our Internet access services are also bundled with additional benefits, including antivirus software and enhanced email storage, although we also offer each of these features and certain other value-added features as stand-alone pay services. We offer mobile broadband devices for sale in connection with our mobile broadband services. We also generate revenues from the resale of telecommunications to third parties. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments - United Online segment to continue to decline year over year.

Advertising and other revenue

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

Customers

We serve retail, corporate, capital provider and individual customers across our services lines. Revenues from liquidation service contracts to one retailer represented 13.5% of total revenues during the year ended December 31, 2016. 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, restructuring advisory, research and sales and trading services. We also provide corporate finance, research, wealth management, and sales and trading services to high net worth individuals. We maintain client relationships with companies in the consumer goods, consumer services, defense, industrials and technology industries.

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 Canada, Cache, Orchard Supply Stores, Blockbuster Video, Borders Group, Circuit City, Fortunoff, Office Depot, 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, James River Coal Company, 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, JPMorgan Chase, and Wells Fargo. Our clients also include private equity firms such as Apollo Management, Goldman Sachs Capital Partners, and Sun Capital Partners.

United Online

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

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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.

United Online

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

Regulation

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

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

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.

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

Employees

As of December 31, 2016, we had 388 full time employees. We are not a party to any collective bargaining agreements. We have never experienced a work stoppage or strike and believe that relations with our employees are good.

Strategic Combination

On June 18, 2014, we completed the acquisition of B. Riley & Co. Inc. ("BRC Inc."), a full-service independent investment bank, pursuant to the terms of the Acquisition Agreement (the "Acquisition Agreement"), dated as of May 19, 2014, by and among us, Darwin Merger Sub I, Inc., our wholly owned subsidiary, B. Riley Capital Markets, LLC, our wholly owned subsidiary ("BCM"), BRC, 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 our 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 our wholly owned subsidiary. We completed the acquisitions of BRH, whose operations include asset management and financial advisory services, and RIM, which provides services to certain pooled investment vehicles, on August 1, 2014. The total purchase price for the B. Riley Entities was $26.4 million, which was paid at closing on June 18, 2014, in the form of 4,182,637 newly issued shares of our common stock. Effective upon the closing of the acquisition on June 18, 2014, Bryant Riley, the principal owner of BRC, was appointed as our Chief Executive Officer and Chairman.

Acquisition of MK Capital

On February 2, 2015, we completed the purchase of all of the membership interests of MK Capital Advisors, LLC ("MK Capital"), a wealth management business with operations primarily in New York, pursuant to a purchase agreement we entered into with MK Capital on January 2, 2015. The aggregate purchase price for the acquisition, including contingent consideration paid in February 2016 and February 2017 upon the satisfaction of certain conditions, was $5 million in cash and 666,666 shares of our common stock. We subsequently changed the name of MK Capital to B. Riley Wealth Management.

Other

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

Available Information

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

Item 1A. RISK FACTORS

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

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

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

- Our ability to attract new clients and obtain additional business from our existing client base;
- The number, size and timing of mergers and acquisition transactions, capital raising transactions and other strategic advisory services where we act as an adviser on our auction and liquidation and investment banking engagements;
- The extent to which we acquire assets for resale, or guarantee a minimum return thereon, and our ability to resell those assets at favorable prices;
- Variability in the mix of revenues from the auction and liquidation and valuation and appraisal businesses;
- The rate of decline we experience from our dial-up and DSL Internet access pay accounts in our UOL business as customers continue to migrate to broadband access which provides faster Internet connection and download speeds offered by our competitors ;
- The rate of growth of new service areas;
- The types of fees we charge clients, or other financial arrangements we enter into with clients; and
- Changes in general economic and market conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific corporate finance, merger and acquisition transactions (often as an advisor in company sale transactions) and other strategic advisory services, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business, results of operations and financial condition could be adversely affected.

The asset management business is intensely competitive.

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

- investment performance;
- investor perception of the drive, focus and alignment of interest of an investment manager;
- quality of service provided to and duration of relationship with investors;
- business reputation; and

- level of fees and expenses charged for services.

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

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

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

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

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

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

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

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

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

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

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

We are subject to risks in using custodians.

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

We may suffer losses if our reputation is harmed.

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

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

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

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

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

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

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

The continued growth of electronic trading and the introduction of new technologies is changing our market-making business and presenting new challenges. Securities, futures and options transactions are increasingly occurring electronically, through alternative trading systems. It appears that the trend toward alternative trading systems will continue to accelerate. This acceleration could further increase program trading, increase the speed of transactions and decrease our ability to participate in transactions as principal, which would reduce the profitability of our market-making business. Some of these alternative trading systems compete with our market-making business and with our algorithmic trading platform, and we may experience continued competitive pressures in these and other areas. Significant resources have been invested in the development of our electronic trading systems, which includes our 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 loses 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 28.0% of our outstanding common stock as of December 31, 2016. In particular, our Chairman and Chief Executive Officer, Bryant R. Riley, owns or controls, in the aggregate, 4,116,891 shares of our common stock or 21.5% of our outstanding common stock as of December 31, 2016. 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:

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

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

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

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

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

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

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

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

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

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

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

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

In most instances, inventory is reported on the balance sheet at its historical cost; however, according to U.S. Generally Accepted Accounting Principles, inventory whose historical cost exceeds its market value should be valued conservatively, which dictates a lower value should apply. Accordingly, should the replacement cost (due to technological obsolescence or otherwise), or the net realizable value of any inventory we hold be less than the cost paid to acquire such inventory (purchase price), we will be required to "mark down" the value of such inventory held. If the value of any inventory held on our balance sheet is required to be written down, such write down could have a material adverse effect on our financial position and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- actual or anticipated fluctuations in our results of operations;

- announcements of significant contracts and transactions by us or our competitors;

- sale of common stock or other securities in the future;

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

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

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

Our common shares began trading on the over-the-counter bulletin board in August 2009, and we obtained approval to list and trade our shares on The NASDAQ Stock Market LLC's NASDAQ Capital Market on July 16, 2015. Trading of our common stock has in the past been highly volatile with low trading volume and an active trading market for shares of our common stock may not develop. In such case, selling shares of our common stock may be difficult because the limited trading market for our shares could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume. Further, the market price of shares of our common stock could continue to fluctuate substantially. Additionally, if we are not able to maintain our listing on 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. We are also governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. The foregoing and other provisions in our amended and restated certificate of incorporation, our bylaws, as amended, and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

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

As a result of the common stock offering that was completed on June 5, 2014, the Company had a more than 50% ownership shift in accordance with 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 a result of the acquisition of UOL on July 1, 2016, the historical net operating losses of UOL are limited to offset income we generate post acquisition. As of December 31, 2016, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods before the loss carryforwards expire and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance. However, to the extent that the Company is unable to utilize such net operating loss, it may have a material adverse effect on our financial condition and results of operations.

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

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

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

Asset management businesses have experienced a number of highly publicized regulatory inquiries which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. We are registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this and other areas, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us. In addition, Congress is currently considering imposing new requirements on entities that securitize assets, which could affect our credit activities. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

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

Dodd-Frank instituted a wide range of reforms that have impacted and will continue to impact financial services firms and continues to require significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. The legislation and regulation of financial institutions, both domestically and internationally, include calls to increase capital and liquidity requirements; limit the size and types of the activities permitted; and increase taxes on some institutions. FINRA’s oversight over broker-dealers and investment advisors may be expanded, and new regulations on having investment banking and securities analyst functions in the same firm may be created. Many of the provisions of Dodd-Frank remain subject to further rule making procedures and studies and will continue to take effect over several years. As a result, we cannot assess the full impact of all of these legislative and regulatory changes on our business at the present time. However, these legislative and regulatory changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our businesses. If we do not comply with current or future legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. Accordingly, such legislation or regulation could have an adverse effect on our business, results of operations, cash flows or financial condition.

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

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

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

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

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

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

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

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

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

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. Our Board of Directors may reduce or discontinue dividends at any time for any reason it deems relevant and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will continue to pay dividends with the cash that we do generate. The determination regarding the payment of dividends is subject to the discretion of our Board of Directors, and there can be no assurances that we will continue to generate sufficient cash to pay dividends, or that we will pay dividends in future periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Advertising revenues are a key component of revenues and profitability from UOL. UOL's services currently generate advertising revenues from search placements, display advertisements and online market research associated with Internet access and email services. Factors that have caused, or may cause in the future, UOL's advertising revenues to fluctuate include, without limitation, changes in the number of visitors to UOL's websites, active accounts or consumers purchasing our services and products, the effect of, changes to, or terminations of key advertising relationships, changes to UOL's websites and advertising inventory, changes in applicable laws, regulations or business practices, including those related to behavioral or targeted advertising, user privacy, and taxation, changes in business models, changes in the online advertising market, changes in the economy, advertisers' budgeting and buying patterns, competition, and changes in usage of UOL's services. Decreases in UOL's advertising revenues are likely to adversely impact our profitability. Further, our successful operation and management of UOL, including the ability to generate advertising revenues for UOL's services, will depend in part upon our ability to increase or maintain the number of subscribers for UOL's services. A decline in the number of subscribers using UOL's services could result in decreased advertising revenues, and decreases in advertising revenues would adversely impact our profitability. The failure to increase or maintain the number of subscribers for UOL's services could have a material adverse effect on advertising revenues and our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In November 2016 we completed an offering of 7.50% Senior Notes with an aggregate principal amount of $28.75 million. The terms of such indebtedness contain various restrictions and covenants regarding the operation of our business, including, but not limited to, restrictions on our ability to merge or consolidate with or into any other entity. We may also secure additional debt financing in the future in addition to our current debt. Our level of indebtedness generally could adversely affect our operations and liquidity, by, among other things: (i) making it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because we may not have sufficient cash flows to make our scheduled debt payments; (ii) causing us to use a larger portion of our cash flows to fund interest and principal payments, thereby reducing the availability of cash to fund working capital, capital expenditures and other business activities; (iii) making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities or other strategic transactions, and to react to changes in market or industry conditions; and (iv) limiting our ability to borrow additional monies in the future to fund working capital, capital expenditures, acquisitions and other general corporate purposes as and when needed, which could force us to suspend, delay or curtail business prospects, strategies or operations. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our operations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. These alternative strategies may not be affected on satisfactory terms, if at all, and they may not yield sufficient funds to make required payments on our indebtedness. If, for any reason, we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our debt, which could allow our creditors at that time to declare certain outstanding indebtedness to be due and payable or exercise other available remedies, which may in turn trigger cross acceleration or cross default rights in other agreements. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

Risk Factors Relating to the Merger

Because the market price of our common shares may fluctuate, the value of the merger consideration to be paid to FBR shareholders may change.

Upon completion of the Merger, each outstanding FBR common share, excluding certain specified shares, will be converted into the right to receive 0.671 of a share of our common stock pursuant to the terms of the Merger Agreement. The closing price of our common shares on the date that the Merger is completed may vary from the closing price of our common shares on the date we and FBR announced the Merger. Any change in the market price of our common shares prior to completion of the merger will affect the value of the merger consideration we will issue that FBR shareholders upon completion of the Merger. Share price changes may result from a variety of factors, including general market and economic conditions, changes in our and FBR's respective businesses, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of us and FBR. In addition, the amount to be received by holders of FBR common shares in a pre-closing dividend may change.

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

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

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

Before the transactions contemplated by the Merger Agreement, including the Merger, may be completed, various approvals must be obtained from governmental and self-regulatory authorities, including (i) the expiration of the applicable waiting period under the HSR Act and (ii) subject to certain exceptions, the receipt of approval of each FBR broker-dealer subsidiary's Continuing Membership Application by FINRA. These authorities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the Merger or of imposing additional costs or limitations on the combined company following the Merger. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the Merger that are not anticipated or cannot be met. If the consummation of the Merger is delayed, including by a delay in receipt of necessary governmental approvals, the business, financial condition and results of operations of each company may also be materially adversely affected.

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

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

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

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

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

Our shareholders will generally have a reduced ownership and voting interest after the Merger and will exercise less influence over management.

Our stockholders currently have the right to vote in the election of the our board of directors and on other matters affecting us. Upon the completion of the Merger, except for shareholders who own common shares in both us and FBR, each of our shareholder's percentage ownership of us will be smaller than such stockholder's current percentage ownership. It is currently expected that the former shareholders of FBR as a group will receive shares in the Merger constituting approximately 27.5% of the outstanding shares of the combined company immediately after the Merger. As a result, our current stockholders as a group will own approximately 72.5% of the outstanding shares of the combined company immediately after the Merger. Because of this, our shareholders will generally have less influence on the management and policies of the combined company than they now have on our management and policies.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our headquarters are located in Woodland Hills, California in a leased facility. The following table sets forth the location and use of each of our properties, all of which are leased as of December 31, 2016.

Location	**Use**
Woodland Hills, California	Headquarters; Accounting, Information Technology and Human Resources offices; Appraisal, Auction and Liquidation and United Online offices
Los Angeles, California	Capital Markets office
Costa Mesa, 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
Fort Lee, New Jersey	United Online office
Toledo, Ohio	Appraisal office
Atlanta, Georgia	Appraisal office
Charlotte, North Carolina	Appraisal office
Winston-Salem, North Carolina	Appraisal office

Milwaukee, Wisconsin	Appraisal office
Sydney, Australia	Auction & Liquidation office
Hyderabad, India	United Online 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. Great American Group, LLC filed a Motion to Dismiss the Complaint and 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. In April 2016, Great American Group, LLC filed an answer with the Court denying the allegations in the complaint. In December 2016, the parties exchanged initial disclosures. In January 2017, the parties filed a proposed scheduling order with the Court. Discovery in the action is currently proceeding. 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.

On July 5, 2016, Quadre Investments LP (“Quadre”) filed a petition with the Delaware Court of Chancery (the “Chancery Court”) seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by the Company (the “Quadre Litigation”). Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre is entitled to petition the Chancery Court to receive fair value as determined by the Chancery Court. We do not believe that the fair value of each share exceeds $11.00 per share, the merger consideration paid to UOL stockholders pursuant to the merger agreement in such acquisition, and we intend to contest the petition. Discovery in the case has commenced. As of December 31, 2016, we have recorded approximately $10.4 million of acquisition consideration payable and approximately $0.3 million of accrued interest payable in connection with the Quadre Litigation.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

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

Stock Market and Other Information

Our common stock is traded on the NASDAQ Global Market under the symbol: "RILY". From July 16, 2015 to November 15, 2016, our common stock was traded on the NASDAQ Capital Market under the symbol "RILY". 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.

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, NASDAQ Capital Market or NASDAQ Global Market (as applicable) on a quarterly basis for the years ended December 31, 2015 and 2016.

	High	Low
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
2016:		
Quarter ended March 31, 2016	$10.50	$9.05
Quarter ended June 30, 2016	11.72	9.50
Quarter ended September 30, 2016	13.36	8.68
Quarter ended December 31, 2016	19.25	12.20

As of March 10, 2017, there were approximately 83 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 May 4, 2015, our Board of Directors approved a dividend of $0.06 per share, which was paid on or about June 12, 2015 to stockholders of record on May 22, 2015. On August 10, 2015, our Board of Directors approved a dividend of $0.20 per share, which was paid on or about September 10, 2015 to stockholders of record on August 25, 2015. On November 9, 2015, our Board of Directors approved a dividend of $0.06 per share, which was paid on or about December 9, 2015 to stockholders of record on November 24, 2015. On August 4, 2016, our Board of Directors approved a dividend of $0.03 per share, which was paid on or about September 8, 2016 to stockholders of record on August 22, 2016. On November 13, 2016, our Board of Directors approved a regular dividend of $0.08 per share and a special dividend of $0.17 per share, which was paid on or about December 14, 2016 to stockholders of record on November 29, 2016. On February 20, 2017, our Board of Directors approved a regular quarterly dividend of $0.08 per share and a special dividend of $0.18 per share, which will be paid on or about March 13, 2017 to stockholders of record on March 6, 2017. While it is the Board's current intention to make regular dividend payments of $0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

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, 2016, and is derived from our Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016, 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,				
	2016	2015	2014	2013	2012
Revenues:					
Services and fees	$164,235	$101,929	$67,257	$59,967	$65,624
Sale of goods	26,116	10,596	9,859	16,165	18,312
Total revenues	190,351	112,525	77,116	76,132	83,936
Operating expenses:					
Direct cost of services	40,857	29,049	23,466	24,146	23,911
Cost of goods sold	14,755	3,072	14,080	11,506	12,750
Selling, general and administrative	82,127	58,322	44,453	36,382	39,834
Restructuring charge	3,887	—	2,548	—	—
Total operating expenses	141,626	90,443	84,547	72,034	76,495
Operating income (loss)	48,725	22,082	(7,431)	4,098	7,441
Other income (expense):					
Interest income	318	17	12	26	201
Loss from equity investment in Great American Group Real Estate, LLC and Shoon Trading Limited	—	—	—	(177)	(120)
Gain from bargain purchase	—	—	—	—	1,366
Interest expense	(1,996)	(834)	(1,262)	(2,667)	(2,612)
Income (loss) from operations before income taxes	47,047	21,265	(8,681)	1,280	6,276
(Provision) benefit for income taxes	(14,321)	(7,688)	2,886	(704)	(1,936)
Net income (loss)	32,726	13,577	(5,795)	576	4,340
Net income (loss) attributable to noncontrolling interests	11,200	1,772	6	(482)	819
Net income (loss) attributable to B. Riley Financial, Inc.	$21,526	$11,805	$(5,801)	$1,058	$3,521

Basic earnings (loss) per share	$1.19	$0.73	$(0.60)	$0.74	$2.46
Diluted earnings (loss) per share	$1.17	$0.73	$(0.60)	$0.71	$2.38
Cash dividends per share	$0.28	$0.32	$0.03	$—	$—
Weighted average basic shares outstanding	18,106,621	16,221,040	9,612,154	1,434,107	1,434,107
Weighted average diluted shares outstanding	18,391,852	16,265,915	9,612,154	1,495,328	1,480,671

Consolidated Balance Sheet Data:

(Dollars in thousands)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Cash and cash equivalents	$112,105	$30,012	$21,600	$18,867	$18,721
Restricted cash	3,294	51	7,657	325	7,923
Securities owned. At fair value	16,579	25,543	17,955	—	—
Total assets	264,618	132,420	138,990	73,677	80,583
Total current liabilities	83,663	21,950	41,911	29,069	34,275
Total long-term liabilities	30,563	1,150	—	48,759	50,483
Total equity (deficit)	150,392	109,320	97,079	(4,151)	(4,175)

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

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

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

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

Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in "guarantee" based engagements; competition in the asset management business potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our auction and liquidations business; the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities as necessary; failure to comply with the terms of our credit agreements; our ability to meet future capital requirements ; our ability to realize the benefits of our completed and proposed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; the possibility that our proposed acquisition of FBR & Co, Inc. ("FBR") does not close when expected or at all; our ability to promptly and effectively integrate our business with that of FBR if such transaction closes; the reaction to the FBR acquisition of our and FBR's customers, employees and counterparties; and the diversion of management time on acquisition-related issues.

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

Overview

B. Riley Financial, Inc. and its subsidiaries (NASDAQ: RILY) provides collaborative financial services and solutions through several operating 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, a 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 (formally 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;
- § Great American Group Advisory and Valuation Services, LLC, a leading provider of valuation services for asset based lenders and corporate clients; and

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We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. On July 1, 2016, we acquired United Online, Inc. (“UOL”) as part of our principal investments strategy. UOL is a communications company that offers consumer subscription services and products, consisting of Internet access services and devices under the NetZero and Juno brands primarily sold in the United States.

With the acquisition of UOL on July 1, 2016, for financial reporting purposes we now classify our businesses into four operating segments: (i) capital markets, (ii) auction and liquidation, (iii) valuation and appraisal and (iv) principal investments - United Online.

Capital Markets Segment. Our capital markets segment provides a full array of investment banking, corporate finance, research, 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 our account, including investments in funds managed by our subsidiaries. Our capital markets segment also includes our asset management businesses that manage various private and public funds for institutional and individual investors.

Auction and Liquidation Segment. Our auction and liquidation segment utilizes our significant industry experience, a scalable network of independent contractors and industry-specific advisors to tailor our services to the specific needs of a multitude of clients, logistical challenges and distressed circumstances. Furthermore, our scale and pool of resources allow us to offer our services across North American as well as parts of Europe, Asia and Australia. Our auction and liquidation segment operates through two main divisions, retail store liquidations and wholesale and industrial assets dispositions. Our wholesale and industrial assets disposition division operates through limited liability companies that are controlled by us.

Valuation and Appraisal Segment. Our valuation and appraisal segment provides valuation and appraisal services to financial institutions, lenders, private equity firms and other providers of capital. These services primarily include the valuation of assets (i) for purposes of determining and monitoring the value of collateral securing financial transactions and loan arrangements and (ii) in connection with potential business combinations. Our valuation and appraisal segment operates through limited liability companies that are majority owned by us.

Principal Investments - United Online Segment. Our principal investments - United Online segment consists of UOL which offers consumer subscription services consisting of Internet access under the NetZero and Juno brands. Internet access includes paid dial-up, mobile broadband and DSL subscription services. We also offer email, Internet security, web hosting services, and other services.

Historically, revenues from our auction and liquidation segment vary significantly from quarter to quarter and have a significant impact on our operating results from period to period. These revenues have historically comprised a significant amount of our total revenues and operating profits. During the years ended December 31, 2016, 2015 and 2014, revenues from our auction and liquidation segment were 46.0%, 41.1% and 35.0% of total revenues. Our profitability in each reporting period is impacted by the number and size of retail liquidation engagements we perform on a quarterly or annual basis. Revenues from liquidation service contracts to one retailer represented 13.5% of our total revenues during the year ended December 31, 2016. Revenues from liquidation service contracts to one retailer represented 12.4% of our total revenues during the year ended December 31, 2015. 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.

Recent Developments

In August 2016, we were engaged to liquidate the going-out-of-business sale of 63 Masters Home Improvement stores located throughout Australia. As part of the liquidation engagement we provided a minimum guarantee of amounts to be realized from the liquidation of inventory. We formed GA Retail Investments, L.P., a Delaware limited partnership (the “Partnership”), with a third party investor which required us to contribute $15.4 million, in connection with our general and limited partnership interest, and we borrowed $61.4 million from a third party investor. The Partnership was formed to provide funding for the Masters Home Improvement retail liquidation engagement. The participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and the principal amount was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At December 31, 2016, $10.0 million was payable in accordance with the participating note payable share of profits and is included net income attributable to noncontrolling interests and amounts due to related parties and partners in the consolidated financial statements.

In September 2016, we were engaged to liquidate the inventory of 130 stores of MS Mode in the Netherlands. As part of the retail liquidation engagement we purchased $10.3 million of inventory and commenced the sale of retail inventory. We completed the sale of all of the inventory in December 2016 as part of the retail liquidation engagement.

On November 2, 2016, we issued $28.75 million of Senior Notes due in 2021, interest payable quarterly at 7.5% commencing January 31, 2017. The Senior Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the Senior Notes we received net proceeds of $27.7 million (after underwriting commissions and fees of $1.1 million). In connection with the offering of $28.75 million of Senior Notes, certain members of our management and Board of Directors purchased $2.7 million or 9.5% of the Senior Notes we offered.

On February 17, 2017, we entered into an agreement and plan of merger (the "Merger Agreement") to acquire FBR, an investment banking and brokerage firm that provides investment banking, M&A advisory, institutional brokerage, and research services, pursuant to which FBR will merge with and into us (or a subsidiary of us), with us (or our subsidiary) as the surviving corporation (the "Merger"). Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each outstanding share of FBR common stock, excluding certain specified shares, will be converted into the right to receive 0.671 of a share of our common stock. We currently estimate that 5.3 million shares of our common stock will be issued in connection with this transaction, with an assumed value of $93.0 million based on the closing price of our common stock on February 17, 2017. In addition, prior to the closing of the Merger, the board of directors of FBR may declare and pay a cash dividend to holders of FBR Common Stock and FBR equity awards. Such dividend on a per share basis will be equal to the value of cash and certain specified investments on FBR's balance sheet in excess of $33.5 million and certain transaction expenses divided by the total number of fully diluted shares of FBR Common Stock outstanding (subject to certain adjustments if such dividend would be equal to or more than $8.50 per fully diluted share of FBR Common Stock). Consummation of the Merger is subject to certain closing conditions, as set forth in the Merger Agreement, including the approval of the Merger by our shareholders and the shareholders of FBR. The Merger is currently expected to close in the second quarter of 2017. If the Merger is consummated, we anticipate that FBR's operations will be included in our capital markets segment.

The Merger Agreement further provides that, at or prior to the effective time of the Merger, the number of directors comprising our full Board of Directors will be increased by one, with Richard J. Hendrix, Chairman, President and Chief Executive Officer of FBR, being appointed to fill the new seat in accordance with the terms of the employment agreement described below. In connection with the execution of the Merger Agreement, on February 17, 2017, BRC and we entered into an employment agreement with Mr. Hendrix, which provides that, following the closing of the Merger, Mr. Hendrix will become President and Chief Executive Officer of the combined business of FBR and BRC and will be appointed to our Board of Directors, contingent on Mr. Hendrix remaining employed by FBR through the closing of the Merger. In addition, on February 17, 2017, certain officers and directors of FBR entered into voting agreements with us with respect to shares of FBR common stock held by such officers or directors, and certain of our officers and directors entered into voting agreements with FBR with respect to shares of our common stock held by such officers or directors, which generally require each stockholder party thereto in his or her capacity as a stockholder, to vote all of the shares of common stock over which such party has voting control in favor of adoption of the Merger Agreement and certain related matters and against alternative transactions and generally prohibit them from transferring their shares of common stock, subject to certain exceptions.

Results of Operations

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

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

Consolidated Statements of Operations

(Dollars in thousands)

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Amount	%	Amount	%
Revenues:				
Services and fees	$ 164,235	86.3 %	$ 101,929	90.6 %
Sale of goods	26,116	13.7 %	10,596	9.4 %
Total revenues	190,351	100.0 %	112,525	100.0 %
Operating expenses:				
Direct cost of services	40,857	21.4 %	29,049	25.8 %
Cost of goods sold	14,755	7.7 %	3,072	2.7 %
Selling, general and administrative expenses	82,127	43.4 %	58,322	51.9 %
Restructuring charge	3,887	2.0 %	-	0.0 %
Total operating expenses	141,626	74.5 %	90,443	80.4 %
Operating income	48,725	25.5 %	22,082	19.6 %
Other income (expense):				
Interest income	318	0.2 %	17	0.0 %
Interest expense	(1,996)	-1.0 %	(834)	-0.7 %
Income before income taxes	47,047	24.7 %	21,265	18.9 %
Provision for income taxes	(14,321)	-7.5 %	(7,688)	-6.8 %
Net income	32,726	17.2 %	13,577	12.1 %
Net income attributable to noncontrolling interests	11,200	5.9 %	1,772	1.6 %
Net income attributable to B. Riley Financial, Inc.	$ 21,526	11.3 %	$ 11,805	10.5 %

Revenues

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

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

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

Revenues from services and fees in the capital markets segment increased $4.1 million, or 11.8% to $39.3 million during the year ended December 31, 2016 from $35.2 million during the year ended December 31, 2015. The increase in revenues was primarily due to an increase in revenues of $4.1 million from trading income and $1.6 million from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services, offset by a decrease in revenues of $1.6 million from investment banking fees. The increase in revenues from trading income in 2016 was primarily due to an increase in income we earned from trading activities in our propriety trading account. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage. The decrease in revenues from investment banking fees was primarily due to a decrease in the number of investment banking transactions where we acted as an advisor in 2016 as compared to the same period in 2015.

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

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

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

Online segment to continue to decline year over year.

Sale of Goods, Cost of Goods Sold and Gross Margin

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

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

Operating Expenses

Direct Costs of Services. Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the years ended December 31, 2016 and 2015 are as follows:

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

n/m – not applicable or not meaningful.

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

Auction and Liquidation

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

Valuation and Appraisal

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

Principal Investments - United Online

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

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

Selling, General and Administrative Expenses by Segment

(Dollars in thousands)

	Year Ended December 31, 2016		Year Ended December 31, 2015		Change	
	Amount	%	Amount	%	Amount	%
Capital Markets segment	$ 33,244	40.5 %	$ 30,748	52.7 %	$ 2,496	8.1 %
Auction and Liquidation segment	14,357	17.5 %	8,361	14.3 %	5,996	71.7 %
Valuation and Appraisal segment	8,885	10.8 %	9,238	15.8 %	(353)	-3.8 %

Principal Investments - United Online segment	9,492	11.6 %	-	n/m	9,492	n/m
Corporate and Other segment	16,149	19.8 %	9,975	17.2 %	6,174	61.9 %
Total selling, general & administrative expenses	$ 82,127	100.2 %	$ 58,322	100.0 %	$ 23,805	40.8 %

n/m – not applicable or not meaningful.

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

Capital Markets

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

Auction and Liquidation

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

Valuation and Appraisal

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

Principal Investments - United Online

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

Corporate and Other

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

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

Other Income (Expense). Other income included interest income of $0.3 million during the year ended December 31, 2016 and less than $0.1 million during the year ended December 31, 2015. Interest expense was $2.0 million during the year ended December 31, 2016 as compared to $0.8 million during the year ended December 31, 2015. The increase in interest expense during the year ended December 31, 2016 was primarily due to (a) an increase in interest expense of $0.5 million incurred from borrowings under our $100 million asset based credit facility, (b) interest expense of $0,3 million incurred on the acquisition consideration payable related to our acquisition of UOL on July 1, 2016 as a result of the Quadre Litigation and (c) interest expense of $0.4 million incurred in 2016 from the issuance of senior notes in November 2016.

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

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

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

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

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

Consolidated Statements of Operations

(Dollars in thousands)

	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 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 - Serivces 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 Advisors, LLC ("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, a retailer of men’s, women’s and children’s shoes, clothing and accessories that operated retail locations throughout the Netherlands, 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 Liquidation Segment	Valuation and Appraisal Segment	Total	Auction and Liquidation Segment	Valuation and 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 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 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 December 31, 2015		Year Ended December 31, 2014		Change	
	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 (a) an increase in operating income of $27.0 million in our auction and liquidation segment and $1.5 million in our valuation and appraisal segment, and (b) 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.

Liquidity and Capital Resources

Our operations are funded through a combination of existing cash on hand, cash generated from operations, proceeds from the issuance of common stock, and borrowings under our senior notes payable, credit facility and special purposes financing arrangements. On May 10, 2016, we completed a secondary offering of 2,420,980 shares of common stock at a price to the public of $9.50 per share. The net proceeds from the offering were $22.8 million after deducting underwriting commissions and other offering expenses. On November 2, 2016, the Company issued $28.75 million of Senior Notes, interest payable quarterly at 7.5% commencing January 31, 2017. The Senior Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the Senior Notes, the Company received net proceeds of $27.7 million (after underwriting commissions and fees of $1.1 million). During the year ended December 31, 2016 and 2015 we generated net income of $21.5 million and $11.8 million, respectively. During the year ended December 31, 2014 we generated a net loss of $5.8 million. Our cash flows and profitability are impacted by the number and size of retail liquidation and capital markets engagements performed on a quarterly and annual basis

As of December 31, 2016, we had $112.1 million of unrestricted cash, $3.3 million of restricted cash, net investments in securities of $15.7 million, and $27.7 million of borrowings outstanding from the issuance of our Senior Notes Payable in November 2016. We believe that our current cash and cash equivalents, funds available under our asset based credit facility and cash expected to be generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We continue to monitor our financial performance to ensure sufficient liquidity to fund operations and execute on our business plan.

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. During the year ended December 31, 2016 and 2015, we paid cash dividends of $5.3 million and $5.2 million, respectively, on our common stock. Our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

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

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Net cash provided by (used in):			

Operating activities	$80,280	$31,671	$(23,030)
Investing activities	(36,872)	4,918	(3,667)
Financing activities	40,404	(28,050)	29,469
Effect of foreign currecy on cash	(1,719)	(127)	(39)
Net increase in cash and cash equivalents	$82,093	$8,412	$2,733

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

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

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

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

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

Cash provided by operating activities was $31.7 million for the year ended December 31, 2015 compared to cash used in operating activities of $23.0 million in the year ended December 31, 2014. Cash provided by operating activities in the year ended December 31, 2015 includes net income of $13.6 million adjusted for noncash items and changes in operating assets and liabilities. The increase in cash provided by operating activities of $54.7 million in 2015 was primarily due (a) an increase in net income to $13.6 million in 2015 from the net loss of $5.8 million during the year ended December 31, 2014, (b) an increase in non-cash charges and other items of $5.0 million, and (c) changes in operating assets and liabilities that generated an increase of $30.1 million in cash flows from operations in 2015 as compared to 2014.

Cash provided by investing activities was $4.9 million for the year December 31, 2015 compared to cash used by investing activities of $3.7 million for the year ended December 31, 2014. During the year ended December 31, 2015, cash provided by investing activities was primarily comprised of cash provided from a $7.6 million decrease in restricted cash, offset by $0.3 million of cash used to purchase property and equipment and $2.5 million of cash used in connection with the acquisition of MK Capital. During the year ended December 31, 2014, cash used in investing activities was primarily comprised of (a) a $7.3 million increase in restricted cash and (b) $0.3 million of cash used to purchase property and equipment, offset by (i) $2.7 million of cash acquired from the acquisition of BRC and (ii) $1.2 million of cash collected from the note receivable – related party.

Cash used in financing activities was $28.1 million during the year ended December 31, 2015 compared to cash provided by financing activities of $29.5 million during the year ended December 31, 2014. During the year ended December 31, 2015, cash used in financing activities primarily consisted of (a) $18.5 million used to repay the balance outstanding on our asset based credit facility, (b) $5.2 million of dividends paid on our common stock, (c) $4.0 million of distributions to noncontrolling interests, and (d) $0.5 million of cash used to pay employment taxes on the vesting of restricted stock, offset by $0.2 million of cash proceeds from borrowings under our revolving credit facility. During the year ended December 31, 2014, cash provided by financing activities primarily consisted of proceeds of $51.2 million from a private placement of 10,289,300 shares of common stock in June 2014, and borrowings of $12.8 million under our asset based credit facility, offset by cash of (a) $0.3 million of repayments under our revolving credit facility, (b) $31.7 million used to repay principal payments on our notes payable to related parties, (c) $0.5

million to pay dividends on our common stock and (d) $2.1 million used to repay other notes payable and make distributions to noncontrolling interests.

Contingent Consideration

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

Credit Agreements

From time to time, we utilize our asset based credit facility with Wells Fargo Bank, National Association to fund costs and expenses incurred in connection with liquidation engagements. We also utilize this credit facility in order to issue letters of credit in connection with liquidation engagements conducted on a guaranteed basis. Subject to certain limitations and offsets, we are permitted to borrow up to $100.0 million under the credit facility, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect), and the maturity date has been extended from July 16, 2013 to July 15, 2018. Borrowings under the credit facility are only made at the discretion of the lender and are generally required to be repaid within 180 days. The interest rate for each revolving credit advance under the related credit agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. On March 19, 2014, we entered into a separate credit agreement (a “UK Credit Agreement”) with an affiliate of Wells Fargo Bank, National Association which provides for the financing of transactions in the United Kingdom. The facility allows us to borrow up to 50.0 million British Pounds. Any borrowings on the UK Credit Agreement reduce the availability on the asset based $100.0 million credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the credit agreement governing the credit facility. On October 5, 2016 we amended the Credit Agreement to add our Canadian subsidiary in order to facilitate borrowings to fund retail liquidation transactions in Canada. The credit facility is secured by the proceeds received for services rendered in connection with the liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract, if any. The credit facility also provides for success fees in the amount of 5% to 20% of the net profits, if any, earned on liquidation engagements that are financed under the credit facility as set forth in the related credit agreement. We typically seek borrowings on an engagement-by- engagement basis. The credit agreement governing the credit facility contains certain covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. At December 31, 2016 and 2015, there were no borrowings or letters of credits outstanding under the credit facility.

Senior Note Offering

On November 2, 2016, we issued $28.75 million of Senior Notes, interest payable quarterly at 7.5% commencing January 31, 2017. The Senior Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the Senior Notes, we received net proceeds of $27.7 million (after underwriting commissions and fees of $1.1 million). In connection with the offering of the Senior Notes, members of our management and Board of Directors purchased $2.7 million or 9.5% of the Senior Notes we offered.

Accounts Receivable Line of Credit

On May 17, 2011, one of our majority owned subsidiaries entered into an Accounts Receivable Line of Credit with a finance company. Proceeds from the Accounts Receivable Line of Credit were used to pay off borrowings under the factoring agreement. The Accounts Receivable Line of Credit is collateralized by the accounts receivable of our majority owned subsidiary and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Accounts Receivable Line of Credit, with maximum borrowings not to exceed $2.0 million. The interest rate under the Accounts Receivable Line of Credit is the prime rate plus 2%, payable monthly in arrears. The Accounts Receivable Line of Credit was amended effective February 3, 2012 and the maximum borrowings allowed increased from $2.0 million to $3.0 million. On December 7, 2015, we notified the finance company to terminate the line of credit upon maturity on February 3, 2016. In connection with the Accounts Receivable Line of Credit, Great American Group, LLC entered into a limited continuing guaranty of our majority owned subsidiary's obligations under the Accounts Receivable Line of Credit. Borrowings outstanding under the Accounts Receivable Line of Credit were $0.3 million at December 31, 2015.

Other Borrowings

In March 2015, we had capital deployed for three retail liquidation engagements. On March 10, 2015, we borrowed $4.5 million from Riley Investment Partners, L.P. ("RIP") in accordance with a subordinated unsecured promissory note (the "RIP Note"). The principal amount of $4.5 million for the RIP Note accrued interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. RIP was also entitled to the Success Fee of 20% of the net profit, if any, earned by us in connection with a designated liquidation transaction. Pursuant to the terms of the RIP Note, under no circumstances were we obligated to pay to RIP any portion of the combined amount of interest and the Success Fee which exceeded twelve percent (12%) of the $4.5 million principal amount of the RIP Note. The outstanding principal amount, together with the accrued and unpaid interest and the Success Fee, were due and payable by us on March 9, 2016. The RIP Note was subordinated in certain respects to our guaranty relating to its existing credit facility with Wells Fargo Bank, National Association and, in the event of certain insolvency proceedings, with respect to such credit facility itself, as well as to any other indebtedness of us to the extent required by the documents governing the repayment thereof. Interest expense on the RIP Note totaled $194 for the year ended December 31, 2015, which includes success fees of $126. The RIP Note was repaid on May 4, 2015.

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

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

Off Balance Sheet Arrangements

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

Dividends

On May 4, 2015, the our Board of Directors approved a dividend of $0.06 per share, which was paid on or about June 12, 2015 to stockholders of record on May 22, 2015. On August 10, 2015, our Board of Directors approved a dividend of $0.20 per share, which was paid on or about September 10, 2015 to stockholders of record on August 25, 2015. On November 9, 2015, our Board of Directors approved a dividend of $0.06 per share, which was paid on or about December 9, 2015 to stockholders of record on November 24, 2015. On August 4, 2016, our Board of Directors approved a dividend of $0.03 per share, which was paid on or about September 8, 2016 to stockholders of record on August 22, 2016. On November 13, 2016, our Board of Directors approved a regular dividend of $0.08 per share and special dividend of $0.17 per share, which were paid on or about December 14, 2016 to stockholders of record on November 29, 2016. On February 20, 2017, our Board of Directors approved a regular quarterly dividend of $0.08 per share and a special dividend of $0.18 per share, which will be paid on or about March 13, 2017 to stockholders of record on March 6, 2017. While it is the Board's current intention to make regular dividend payments of $0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

Contractual Obligations

The following table sets forth aggregate information about our contractual obligations as of December 31, 2016 and the periods in which payments are due:

	Payments due by period				
	Total	Less Than One Year	1-3 Years	4-5 Years	More Than 5 years
	(Dollars in thousands)				
Contractual Obligations					
Acquisition consideration payable	$10,381	$ 10,381	—	—	—
Contingent consideration payable	1,250	1,250	—	—	—
Operating lease obligations	10,807	3,925	5,319	1,399	164
Senior notes payable, including interest	39,531	2,150	4,313	33,068	—
Total	$61,969	$ 17,706	$ 9,632	$ 34,467	$ 164

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

Critical Accounting Policies

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

- it requires assumptions to be made that were uncertain at the time the estimate was made; and

- changes in the estimate, or the use of different estimating methods that could have been selected, could have a material impact on results of operations or financial condition.

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

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

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

Revenues in the capital markets segment are primarily comprised of (i) fees earned from corporate finance and investment banking services and (ii) revenues from sales and trading activities.

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

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

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

Revenues in the valuation and appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the valuation and appraisal segment also include contractual reimbursable.

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

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in.

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

We also evaluate revenue from auction and liquidation contracts in accordance with the accounting guidance to determine whether to report auction and liquidation segment revenue on a gross or net basis. We have determined that we act as an agent in a substantial majority of our auction and liquidation services contracts and therefore we report auction and liquidation revenues on a net basis.

Revenues from the sale of goods are recorded gross and are recognized in the period in which the sale of goods held for sale or auction are completed, title to the property passes to the purchaser and we have fulfilled our obligations with respect to the transaction. These revenues are primarily the result of us acquiring title to merchandise with the intent of selling the items at auction or for augmenting liquidation sales.

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

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

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

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

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses inherent in our accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers’ financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The bad debt expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

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

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

Goodwill includes the excess of the purchase price over the fair value of net assets acquired in a business combinations and the acquisition of noncontrolling interests. The Codification requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates three reporting units, which are the same as its reporting segments described in Note 20 to the consolidated financial statements. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If we perform the detailed qualitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (step 2) to measure such impairment. In 2016, we performed a qualitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test and concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

In accordance with the Codification, the Company reviews the carrying value of its intangibles, which is comprised of tradenames and customer lists, and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2016.

Fair Value Measurements. The Company records securities owned, securities sold not yet purchased, and mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value with fair value determined in accordance with the Codification. Our mandatorily redeemable noncontrolling interests are measured at fair value on a recurring basis and are categorized using the three levels of fair value hierarchy. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

The carrying amounts reported in the consolidated financial statements for cash, restricted cash, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturity of these instruments. The carrying amounts of the notes payable (including credit lines used to finance liquidation engagements), long-term debt and capital lease obligations approximate fair value because the contractual interest rates or effective yields of such instruments are consistent with current market rates of interest for instruments of comparable credit risk. The adoption of the new accounting guidance on fair value did not have a material impact on our consolidated financial statements.

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

Income Taxes. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction, the eligible carryforward period, and other circumstances. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. As a result of the common stock offering that was completed on June 5, 2014, the Company had a more than 50% ownership shift in accordance with Internal Revenue Code Section 382. Accordingly, the Company is limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company’s actual taxable income. As of December 31, 2015, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

New Accounting Standards

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Under this ASU and subsequently issued amendments, revenue are recognized at the time when goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. This standard sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance. This standard is effective in the first quarter of 2018 for public companies and requires either a retrospective or a modified retrospective approach to adoption. The Company believes the adoption of this standard may impact engagements that contain performance-based arrangements in which a success or completion fee is earned when and if certain predefined outcomes occur and engagements and contracts where services are provided under fixed-fees arrangements that have multiple performance obligations. The Company has not completed an assessment and has not yet determined whether the impact of the adoption of this standard on the consolidated financial statements will be material. The Company will adopt this standard on January 1, 2018 but have not concluded on a transition approach. The Company expects to complete the assessment process, including selecting a transition method for adoption during third quarter of 2017.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in this update do not change the core principle of the guidance as noted above at ASU No. 2014-09. The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU No. 2014-09. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update involve simplification in several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update require both prospective and retrospective application with earlier application permitted as of the beginning of an interim or annual reporting period. The Company adopted this update effective January 1, 2016. The impact of this update resulted in a decrease to income tax expense in the amount of $0.4 million during the year ended December 31, 2016. There was no material impact to prior period results of operations as a result of adopting this update.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for us in our first quarter of fiscal year 2019, but early application is permitted. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

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

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon the foregoing evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2016 our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

On July 1, 2016, we completed the acquisition of UOL. We are in the process of integrating UOL and will be conducting an evaluation of internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002. Excluding the UOL acquisition, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Management has excluded from its assessment of internal control over financial reporting at December 31, 2016 the internal control over financial reporting of UOL and its subsidiaries, which we acquired in a purchase business combination on July 1, 2016. UOL’s total assets and total revenues represent 23% and 17%, respectively, of our related consolidated financial statement amounts as of and for the year ended December 31, 2016.

Our independent registered public accounting firm, Marcum LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report which is included in the Financial Statement Schedules of this Annual Report on Form 10-K..

Limitations on Effectiveness of Controls and Procedures

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

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2017 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2016.

Item 11. EXECUTIVE COMPENSATION

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2017 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2016.

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

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2017 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2016.

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

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2017 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2016.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2017 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2016.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. *Financial Statements.* The Company's Consolidated Financial Statements as of December 31, 2016 and 2015 and for each of the three years in the year ended December 31, 2016 and the notes thereto, together with the report of the independent auditors on those Consolidated Financial Statements and the effectiveness of internal control over financial reporting of the Company are hereby filed as part of this report, beginning on page F-1.

2. *Financial Statement Schedules.*

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

(b) Exhibits and Index to Exhibits, below.

Exhibit Index

Exhibit No.	Description
2.1(1)+	Acquisition Agreement, dated May 19, 2014, by and among the registrant, Darwin Merger Sub I, Inc., B. Riley Capital Markets, LLC, B. Riley and Co. Inc., B. Riley & Co. Holding, LLC, Riley Investment Management LLC, and Bryant Riley
2.2(2)+	Agreement and Plan of Merger, dated as of May 4, 2016, by and among the registrant, Unify Merger Sub, Inc., and United Online, Inc.
2.3(3)+	Agreement and Plan of Merger, dated February 17, 2017, by and between the registrant and FBR & Co.
3.1(4)	Amended and Restated Certificate of Incorporation, dated as of August 17, 2015

3.2(5)	Amended and Restated Bylaws, dated as of November 6, 2014
4.1(6)	Form of common stock certificate
4.2(7)	Base Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee
4.3(7)	First Supplemental Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee
10.1(8)	Security Agreement, dated as of October 21, 2008, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association (Successor to Wells Fargo Retail Finance, LLC)
10.2(9)	Escrow Agreement, dated as of July 31, 2009, by and among Alternative Asset Management Acquisition Corp., the registrant, Andrew Gumaer, as the Member Representative, and Continental Stock Transfer & Trust Company
10.3(9)#	Form of Director and Officer Indemnification Agreement
10.4(10)	Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit), dated as of May 17, 2011, by and between BFI Business Finance and Great American Group Advisory & Valuation Services, LLC
10.5(11)	Second Amended and Restated Credit Agreement, dated as of July 15, 2013, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association
10.6(11)	Third Amended and Restated Guaranty, dated as of July 15, 2013, by and between the registrant and Great American Group, LLC, in favor of Wells Fargo Bank, National Association
10.7(12)	Uncommitted Liquidation Finance Agreement, dated as of March 19, 2014, by and among GA Asset Advisors Limited, each special purpose vehicle affiliated to GA Asset Advisors Limited which accedes to such agreement, and Burdale Financial Limited

10.8(12)	Master Guarantee and Indemnity, dated as of March 19, 2014, by and among GA Asset Advisors Limited, the Company, Great American Group, LLC, Great American Group WF, LLC, Burdale Financial Limited and Wells Fargo Bank, National Association
10.9(1)	Form of Registration Rights Agreement
10.10(1)#	Employment Agreement, dated May 19, 2014, by and between the registrant and Bryant Riley
10.11(1)#	Amended and Restated Employment Agreement, dated May 19, 2014, by and between the registrant and Andrew Gumaer
10.12(13)	First Amendment to Credit Agreement and Limited Consent and Waiver, dated as of May 28, 2014, by and among Wells Fargo Bank, National Association, Great American Group WF, LLC, Great American Group, Inc. and Great American Group, LLC
10.13(14)	Subordinated Unsecured Promissory Note, dated March 10, 2015, issued by the registrant to Riley Investment Partners, L.P.
10.14(14)	Third Amendment to Credit Agreement, dated as of February 5, 2015, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association
10.15(14)	Fourth Amendment to Credit Agreement, dated as of February 19, 2015, by and between Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association
10.16(15)#	Amended and Restated 2009 Stock Incentive Plan.
10.17(15)#	Amended and Restated 2009 Stock Incentive Plan – Form of Restricted Stock Unit Agreement
10.18(15)#	Amended and Restated 2009 Stock Incentive Plan – Stock Bonus Program and Form of Stock Bonus Award Agreement
10.19(15)#	Employment Agreement, dated as of April 13, 2015, by and between the registrant and Alan N. Forman
10.20(4)#	B. Riley Financial, Inc. Management Bonus Plan
10.21(16)#	Fifth Amendment to Credit Agreement, dated June 10, 2016, by and among Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association
10.22(17)	Sixth Amendment and Joinder under Credit Facility among Great American Group WF, LLC and Wells Fargo Bank, National Association as Lender October 5, 2016
10.23(7)	Underwriting Agreement, dated as of October 27, 2016, by and among the Company, Wunderlich Securities, Inc. and Compass Point Research & Trading LLC, as representative of the several underwriters named therein
21.1*	Subsidiary List

23.1*	Consent of Marcum LLP
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
\+ Schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby agrees to furnish a copy of any omitted schedules to the Securities and Exchange Commission upon request.
\# Management contract or compensatory plan or arrangement.
(1) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on May 19, 2014.
(2) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on May 6, 2016.
(3) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on February 21, 2017.
(4) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 18, 2015.
(5) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2014.
(6) Incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 30, 2015.
(7) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on November 2, 2016.
(8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 31, 2009.
(9) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 6, 2009.
(10) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on May 26, 2011.
(11) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 19, 2013.
(12) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on March 25, 2014.
(13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2014.
(14) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on May 7, 2015.
(15) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2015.
(16) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 15, 2016.
(17) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2016.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	B. Riley Financial, Inc.
Date: March 10, 2017	/s/ PHILLIP J. AHN (Phillip J. Ahn, Chief Operating Officer and Chief Financial Officer)

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

Signature	Title	Date
/s/ BRYANT R. RILEY (Bryant R. Riley)	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 10, 2017
/s/ PHILLIP J. AHN (Phillip J. Ahn)	Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)	March 10, 2017
/s/ HOWARD E. WEITZMAN (Howard E. Weitzman)	Chief Accounting Officer (Principal Accounting Officer)	March 10, 2017
/s/ ROBERT D'AGOSTINO (Robert D'Agostino)	Director	March 10, 2017
/s/ ANDREW GUMAER (Andrew Gumaer)	Director	March 10, 2017
/s/ THOMAS J. KELLEHER (Thomas J. Kelleher)	Director	March 10, 2017
/s/ TODD D. SIMS (Todd D. Sims)	Director	March 10, 2017
/s/ RICHARD L. TODARO	Director	March 10, 2017

(Richard L. Todaro)

/s/ MIKEL H. WILLIAMS (Mikel H. Williams)	Director	March 10, 2017

B. RILEY FINANCIAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the

Board of Directors and Shareholders of

B. Riley Financial, Inc.

We have audited the accompanying consolidated balance sheets of B. Riley Financial, Inc. and Subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each years in the three year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of B. Riley Financial, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), B. Riley Financial Inc.’s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) and our report dated March 10, 2017 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Marcum LLP

Marcum llp

Melville, NY
March 10, 2017

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

To the Audit Committee of the

Board of Directors and Shareholders of

B. Riley Financial, Inc.

We have audited B. Riley Financial, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

As described in management’s annual report on internal control over financial reporting, management has excluded United Online, Inc. from its assessment of internal control over financial reporting as of December 31, 2016 because United Online, Inc. was acquired by the Company in a business combination during 2016.

In our opinion, B. Riley Financial, Inc. and Subsidiaries maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the years in the three year period ended December 31, 2016 of the Company and our report dated March 10, 2017 expressed an unqualified opinion on those financial statements.

/s/ Marcum LLP

Marcum llp
Melville, NY
March 10, 2017

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 112,105	$ 30,012
Restricted cash	3,294	51
Securities owned, at fair value	16,579	25,543
Accounts receivable, net	18,989	9,472
Due from related parties	3,009	409
Advances against customer contracts	427	5,013
Goods held for sale or auction	—	37
Prepaid expenses and other current assets	3,578	2,415
Total current assets	157,981	72,952
Property and equipment, net	5,785	592
Goodwill	48,903	34,528
Other intangible assets, net	41,166	4,768
Deferred income taxes	8,619	18,992
Other assets	2,164	588
Total assets	$ 264,618	$ 132,420
Liabilities and Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,703	$ 1,123
Accrued payroll and related expenses	15,738	7,178
Accrued value added tax payable	6,371	1,785
Income taxes payable	9,691	740
Accrued expenses and other liabilities	18,505	5,392
Deferred revenue	4,130	346
Due to related parties and partners	10,037	166
Securities sold not yet purchased	846	713
Acquisition consideration payable	10,381	—
Mandatorily redeemable noncontrolling interests	4,019	2,994
Revolving credit facility	—	272
Contingent consideration- current portion	1,242	1,241
Total current liabilities	83,663	21,950
Other liabilities	2,863	—

Senior notes payable	27,700	—
Contingent consideration, net of current portion	—	1,150
Total liabilities	114,226	23,100
Commitments and contingencies		
B. Riley Financial, Inc. stockholders' equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value; 40,000,000 shares authorized; 19,140,342 and 16,448,119 issued and outstanding as of December 31, 2016 and 2015, respectively	2	2
Additional paid-in capital	141,170	116,799
Retained earnings (deficit)	9,887	(6,305)
Accumulated other comprehensive loss	(1,712)	(1,058)
Total B. Riley Financial, Inc. stockholders' equity	149,347	109,438
Noncontrolling interests	1,045	(118)
Total equity	150,392	109,320
Total liabilities and equity	$ 264,618	$ 132,420

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

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B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share data)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Services and fees	$164,235	$101,929	$67,257
Sale of goods	26,116	10,596	9,859
Total revenues	190,351	112,525	77,116
Operating expenses:			
Direct cost of services	40,857	29,049	23,466
Cost of goods sold	14,755	3,072	14,080
Selling, general and administrative	82,127	58,322	44,453
Restructuring charge	3,887	—	2,548
Total operating expenses	141,626	90,443	84,547
Operating income (loss)	48,725	22,082	(7,431)
Other income (expense):			
Interest income	318	17	12
Interest expense	(1,996)	(834)	(1,262)
Income (loss) before income taxes	47,047	21,265	(8,681)
(Provision) benefit for income taxes	(14,321)	(7,688)	2,886
Net income (loss)	32,726	13,577	(5,795)
Net income attributable to noncontrolling interests	11,200	1,772	6
Net income (loss) attributable to B. Riley Financial, Inc.	$21,526	$11,805	$(5,801)
Basic earnings (loss) per share	$1.19	$0.73	$(0.60)
Diluted earnings (loss) per share	$1.17	$0.73	$(0.60)
Cash dividends per share	$0.28	$0.32	$0.03
Weighted average basic shares outstanding	18,106,621	16,221,040	9,612,154
Weighted average diluted shares outstanding	18,391,852	16,265,915	9,612,154

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPHREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income (loss)	$32,726	$13,577	$(5,795)
Other comprehensive loss:			
Change in cumulative translation adjustment	(654)	(410)	(10)
Other comprehensive loss, net of tax	(654)	(410)	(10)
Total comprehensive income (loss)	32,072	13,167	(5,805)
Comprehensive income attributable to noncontrolling interests	11,200	1,772	6
Comprehensive income (loss) attributable to B. Riley Financial, Inc.	$20,872	$11,395	$(5,811)

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	(Deficit)	Loss	Interests	Equity
Balance, December 31, 2013	—	$ —	1,500,107	$ —	$ 3,086	$ (6,611)	$ (638)	$ 12	$ (4,151)
Issuance of common stock on June 5, 2014 for cash, net of issuance costs of $215	—	—	10,289,300	1	51,232	—	—	—	51,233
Foregiveness of long-term debt on June 5, 2014 from the former Great American Group Members	—	—	—	—	18,759	—	—	—	18,759
Issuance of common stock for acquisition of B. Riley & Co., Inc.	—	—	4,182,637	1	26,350	—	—	—	26,351
B. Riley Financial, Inc. common stock owned by B. Riley & Co., Inc. - cancelled upon acquisition	—	—	(3,437)	—	(29)	—	—	—	(29)
Dividends paid	—	—	—	—	—	(479)	—	—	(479)
Deferred tax asset from principal payment on debt to the former Great American Group Members	—	—	—	—	11,200	—	—	—	11,200
Net loss	—	—	—	—	—	(5,801)	—	6	(5,795)
Foreign currency translation adjustment	—	—	—	—	—	—	(10)	—	(10)
Balance, December 31, 2014	—	$ —	15,968,607	$ 2	$ 110,598	$ (12,891)	$ (648)	$ 18	$ 97,079
Issuance of common stock for acquisition of	—	—	333,333	—	4,657	—	—	—	4,657

MK Capital Advisors, LLC and contigent equity consideration on February 2, 2015									
Vesting of restricted stock, net of shares withheld for employer taxes	—	—	146,179	—	(499)	—	—	—	(499)
Share based payments	—	—	—	—	2,043	—	—	—	2,043
Dividends paid	—	—	—	—	—	(5,219)	—	—	(5,219)
Net income	—	—	—	—	—	11,805	—	1,772	13,577
Distributions to non-controlling interests	—	—	—	—	—	—	—	(1,908)	(1,908)
Foreign currency translation adjustment	—	—	—	—	—	—	(410)	—	(410)
Balance, December 31, 2015	—	$ —	16,448,119	$ 2	$ 116,799	$ (6,305)	$ (1,058)	$ (118)	$ 109,320
Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2016	—	—	166,667	—	—	—	—	—	—
Vesting of restricted stock, net of shares withheld for employer taxes	—	—	104,576	—	(1,156)	—	—	—	(1,156)
Offering of common stock, net of offering expenses	—	—	2,420,980	—	22,759	—	—	—	22,759
Share based payments	—	—	—	—	2,768	—	—	—	2,768
Dividends paid	—	—	—	—	—	(5,334)	—	—	(5,334)
Net income	—	—	—	—	—	21,526	—	1,163	22,689
Foreign currency translation adjustment	—	—	—	—	—	—	(654)	—	(654)
Balance, December 31, 2016	—	$ —	19,140,342	$ 2	$ 141,170	$ 9,887	$ (1,712)	$ 1,045	$ 150,392

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

CONSOLDIATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$32,726	$13,577	$(5,795)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,306	848	646
Provision for doubtful accounts	710	718	532
Share based compensation	2,768	2,043	—
Impairment of goods held for sale or auction	—	33	4,675
Non-cash interest	136	163	—
Effect of foreign currency on operations	973	(375)	137
Loss on disposal of assets	—	7	91
Deferred income taxes	3,549	6,609	(2,984)
Income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests	3,032	2,207	1,892
Change in operating assets and liabilities:			
Accounts receivable and advances against customer contracts	(1,847)	11,540	(15,195)
Lease finance receivable	—	—	107
Securities owned	8,964	(7,588)	(16,006)
Goods held for sale or auction	37	20	9,414
Prepaid expenses and other assets	3,662	(1,100)	(59)
Accounts payable, accrued payroll and related expenses, accrued value added tax payable and other accured expenses	23,330	3,943	(1,142)
Amounts due to (from) related parties and partners	(2,766)	(622)	168
Securities sold not yet purchased	133	(33)	(176)
Deferred revenue	884	346	—
Auction and liquidation proceeds payable	(317)	(665)	665
Net cash provided by (used in) operating activities	80,280	31,671	(23,030)
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(33,430)	(2,451)	—
Cash acquired from acquisition of B. Riley & Co., Inc.	—	—	2,667
Purchases of property and equipment	(729)	(239)	(252)
Proceeds from sale of property and equipment and domain names	96	4	—
Proceeds from notes receivable - related party	—	—	1,200
(Increase) decrease in restricted cash	(2,809)	7,604	(7,282)
Net (used in) provided by investing activities	(36,872)	4,918	(3,667)

Cash flows from financing activities:			
Proceeds from (repayments of) revolving line of credit	(272)	216	(277)
Proceeds from asset based credit facility	56,255	—	12,796
Repayment of asset based credit facility	(56,255)	(18,506)	—
Proceeds from note payable - related party	—	4,500	—
Repayment of note payable - related party	—	(4,500)	—
Proceeds from participating note payable	61,400	—	—
Repayment of participating note payable and contingent consideration	(62,650)	—	(32,010)
Proceeds from issuance of senior notes	27,664	—	—
Proceeds from issuance of common stock	22,759	—	51,233
Payment of employment taxes on vesting of restricted stock	(1,156)	(499)	—
Dividends paid	(5,334)	(5,219)	(479)
Distributions to noncontrolling interests	(2,007)	(4,042)	(1,794)
Net cash provided by (used in) financing activities	40,404	(28,050)	29,469
Effect of foreign currency on cash	(1,719)	(127)	(39)
Net increase in cash and cash equivalents	82,093	8,412	2,733
Cash and cash equivalents, beginning of year	30,012	21,600	18,867
Cash and cash equivalents, end of year	$112,105	$30,012	$21,600
Supplemental disclosures:			
Interest paid	$376	$579	$1,501
Income taxes paid	685	1,688	44

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B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

B. Riley Financial, Inc. and its subsidiaries (collectively the “Company”) provide investment banking and financial services to corporate, institutional and high net worth clients, and asset disposition, valuation and appraisal and capital advisory services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms throughout the United States, Australia, Canada, and Europe, and with the acquisition of United Online, Inc. (“UOL”) on July 1, 2016, provide consumer Internet access and related subscription services.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly owned and majority-owned subsidiaries. The consolidated financial statements also include the accounts of Great American Global Partners, LLC ("GA Global") which is controlled by the Company as a result of its ownership of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations. All intercompany accounts and transactions have been eliminated upon consolidation. The consolidated financial statements also include the accounts of GA Retail Investments, L.P. which is controlled by the Company as a result of its ownership of a 50% partnership interest, appointment of executive officers and significant influence over the operations, and guarantee of certain amounts under the related promissory note.

The accounting guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a VIE; to add an additional reconsideration event for determining whether an entity is a VIE when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a VIE.

(b) Use of Estimates

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

(c) Revenue Recognition

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

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

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

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

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

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs which totaled $2,962, $3,052 and $3,013 for the years ended December 31, 2016, 2015 and 2014, respectively.

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

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled \$10,250, \$10,641 and \$6,950 for the years ended December 31, 2016, 2015 and 2014, respectively.

Revenues earned from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation are recognized based on proceeds received. The Company records proceeds received from these types of engagements first as a reduction of contractual reimbursable expenses, second as a recovery of its guarantee and thereafter as revenue, subject to such revenue meeting the criteria of having been fixed or determinable. Contractual reimbursable expenses and amounts advanced to customers for minimum guarantees are initially recorded as advances against customer contracts in the accompanying consolidated balance sheets. If, during the auction or liquidation sale, the Company determines that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, the Company accrues a loss on the contract in the period that the loss becomes known. During the fourth quarter of 2014, revenues in the Auction and Liquidation segment also included estimated losses of \$6,100 that were accrued at December 31, 2014 on the performance of one retail liquidation services engagement where we guaranteed a minimum recovery value for goods sold.

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

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

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

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

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

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

In the normal course of business, the Company will enter into collaborative arrangements with other merchandise liquidators to collaboratively execute auction and liquidation contracts. The Company’s collaborative arrangements specifically include contractual agreements with other liquidation agents in which the Company and such other liquidation agents actively participate in the performance of the liquidation services and are exposed to the risks and rewards of the liquidation engagement. The Company’s participation in collaborative arrangements including its rights and obligations under each collaborative arrangement can vary. Revenues from collaborative arrangements are recorded net based on the proceeds received from the liquidation engagement. Amounts paid to participants in the collaborative arrangements are reported separately as direct costs of revenues. Revenue from collaborative arrangements in which the Company is not the majority participant is recorded net based on the Company’s share of proceeds received. There were no revenues and direct cost of services subject to collaborative arrangements during the year ended December 31, 2016, 2015 and 2014.

(d) Direct Cost of Services

Direct cost of services relate to service and fee revenues. The costs consist of employee compensation and related payroll benefits, travel expenses, the cost of consultants assigned to revenue-generating activities and direct expenses billable to clients in the Valuation and Appraisal segment. Direct costs of services include participation in profits under collaborative arrangements in which the Company is a majority participant. Direct costs of services also include the cost of consultants and other direct expenses related to auction and liquidation contracts pursuant to commission and fee based arrangements in the Auction and Liquidation segment. Direct cost of services in the Principal Investments - United Online segment include cost of telecommunications and data center costs, personnel and overhead-related costs associated with operating the Company’s networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billing and processing of customer credit cards and associated bank fees. Direct cost of services does not include an allocation of the Company’s overhead costs.

(e) Concentration of Risk

Revenues from one liquidation service contract to a retailer represented 13.5% of total revenues during the year ended December 31, 2016. Revenues from one liquidation service contract to a retailer represented 12.4% of total revenues during the year ended December 31, 2015. Revenues in the Capital Markets, Auction and Liquidation, Valuation and Appraisal and Principal Investments - United Online segment are primarily generated in the United States, Australia, Canada and Europe.

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

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

(f) Advertising Expense

The Company expenses advertising costs, which consist primarily of costs for printed materials, as incurred. Advertising costs totaled $1,456, $519 and $262 for the years ended December 31, 2016, 2015 and 2014, respectively. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

(g) Share-Based Compensation

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

(h) Income Taxes

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

(i) Cash and Cash Equivalents

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

(j) Restricted Cash

As of December 31, 2016, restricted cash included $1,440 of cash collateral related to a retail liquidation engagement in Australia, $1,320 of cash collateral for foreign exchange contracts and $534 cash segregated in a special bank accounts for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication suppliers. As of December 31, 2015, restricted cash included $51 of cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary.

(k) Accounts Receivable

Accounts receivable represents amounts due from the Company's auction and liquidation, valuation and appraisal, capital markets and principal investments - United Online customers. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers' financial condition and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company's bad debt expense totaled $710, $718 and $532 for the years ended December 31, 2016, 2015 and 2014, respectively. These amounts are included as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations.

(l) Advances Against Customer Contracts

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

(m) Goods Held for Sale or Auction

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

(n) Securities Owned and Securities Sold Not Yet Purchased

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

As of December 31, 2016 and 2015, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following:

	December 31, 2016	December 31, 2015
Securities owned		
Common stocks	$ 2,084	$ 17,586
Corporate bonds	1,025	941
Partnership interests	13,470	7,016
	$ 16,579	$ 25,543
Securities sold not yet purchased		
Corporate bonds	$ 846	$ 713

(o) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Property and equipment under capital leases were stated at the present value of minimum lease payments.

(p) Goodwill and Other Intangible Assets

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

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

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When testing goodwill for impairment, the Company may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In 2015, the Company first performed a qualitative assessment to identify and evaluate events and circumstances to conclude whether it is more likely than not that the fair value of the Company's reporting units are less than its carrying amounts. Based on the Company's qualitative assessments, the Company concluded that a positive assertion can be made from the qualitative assessment that it is more likely than not that the fair value of the reporting units exceeded their carrying values and no impairments were identified.

The Company reviews the carrying value of its amortizable intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2016.

(q) Fair Value Measurements

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. The Company also records mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value with fair value determined in accordance with the ASC. The following tables below presents information about the Company's securities owned, mandatorily redeemable noncontrolling interests and securities sold not yet purchased that are measured at fair value on a recurring basis as of December 31, 2016 and December 31, 2015 which are categorized using the three levels of fair value hierarchy. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following tables present information on the financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2016 and 2015.

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2016, Using			
	Fair Value at December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$ 2,084	$ 1,785	$ -	$ 299
Corporate bonds	1,025	-	865	160
Partnership interests	13,470	-	44	13,426
Total assets measured at fair value	$ 16,579	$ 1,785	$ 909	$ 13,885
Liabilities:				
Securities sold not yet purchased				
Corporate bonds	$ 846	$ -	$ 846	$ -
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 3,214	-	-	3,214
Contingent consideration	1,242	-	-	1,242
Total liabilities measured at fair value	$ 5,302	$ -	$ 846	$ 4,456

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2015, Using			
	Fair Value at December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$ 17,586	$ 17,296	$ -	$ 290
Corporate bonds	941	-	941	-
Partnership interests	7,016	-	5,250	1,766
Total assets measured at fair value	$ 25,543	$ 17,296	$ 6,191	$ 2,056
Liabilities:				
Securities sold not yet purchased Corporate bonds	$ 713	$ -	$ 713	$ -
	2,330	-	-	2,330

Mandatorily redeemable noncontrolling interests issued after November 5, 2003				
Contingent consideration	2,391	-	-	2,391
Total liabilities measured at fair value	$ 5,434	$ -	$ 713	$ 4,721

The Company determined the fair value of mandatorily redeemable noncontrolling interests described above based on the issuance of similar interests for cash, references to industry comparables, and relied, in part, on information obtained from appraisal reports and internal valuation models. The changes in Level 3 fair value hierarchy during the year ended December 31, 2016 and 2015 is as follows:

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	Level 3 Balance at Beginning of Period	Level 3 Changes During the Year Fair Value Adjustments	Relating to Undistributed Earnings	Purchases, Sales and Settlements	Transfer in and/or out of Level 3	Level 3 Balance at End of Period
Year Ended December 31, 2016						
Common stocks	$ 290	$ -	$ -	$ 9	$ -	$ 299
Corporate bonds	$ -	$ -	$ -	$ 160	$ -	$ 160
Partnership interests	$ 1,766	$ 2,294	$ 1,366	$ 8,000	$	$ 13,426
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,330	$ 800	$ 84	$	$	$ 3,214
Contingent consideration	$ 2,391	$ 101	$	$ (1,250)	$	$ 1,242
Year Ended December 31, 2015						
Common stocks	$ 319	$ -	$ -	$ (29)	$ -	$ 290
Partnership interests	$ -	$ 79	$ -	$ 1,687	$ -	$ 1,766
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,285	$ -	$ 45	$ -	$ -	$ 2,330
Contingent consideration	$ -	$ 2,391	$ -	$ -	$ -	$ 2,391

The amount reported in the table above for the years ended December 31, 2016 and December 31, 2015 includes the amount of undistributed earnings attributable to the noncontrolling interests that is distributed on a quarterly basis. The fair value adjustment for contingent consideration during the year ended December 31, 2015 in the table above of $2,391 includes the initial value of contingent consideration of $2,229 and an adjustment for imputed interest of $162.

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

(r) Derivative and Foreign Currency Translation

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain auction and liquidation engagements with operations outside the United States. During the year ended December 31, 2016, the Company's use of derivatives consisted of the purchase of forward exchange contracts (a) in the amount of $10,200 Canadian dollars that was settled at various periods prior to August 31, 2016, (b) 5,600

Euro's that was settled on December 30, 2016 and (c) $20,000 Australian dollars that was settled on December 30, 2016 and another $25,000 Australian dollars that was settled on January 31, 2017. During the year ended December 31, 2015, the Company's use of derivatives consists of forward exchange contract agreements totaling $16,870 Canadian dollars at various times during the year. The forward exchange contracts were entered into to improve the predictability of cash flows related to retail store liquidation and wholesale and industrial auction engagements. The net loss from forward exchange contracts was $117 during the year ended December 31, 2016 and the net gain from forward exchange contracts was $13 during the year ended December 31, 2015. These amounts are reported as a component of selling, general and administrative expenses in the condensed consolidated financial statements.

The Company transacts business in various foreign currencies. In countries where the functional currency of the underlying operations has been determined to be the local country's currency, revenues and expenses of operations outside the United States are translated into United States dollars using average exchange rates while assets and liabilities of operations outside the United States are translated into United States dollars using year-end exchange rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Transaction losses were $848, $271 and $137 during the years ended December 31, 2016, 2015 and 2014, respectively, These amounts are included in selling, general and administrative expenses in our consolidated statements of operations.

(s) Supplemental Cash Flows Disclosure

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

(t) Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Under this ASU and subsequently issued amendments, revenue are recognized at the time when goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. This standard sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance. This standard is effective in the first quarter of 2018 for public companies and requires either a retrospective or a modified retrospective approach to adoption. The Company believes the adoption of this standard may impact engagements that contain performance-based arrangements in which a success or completion fee is earned when and if certain predefined outcomes occur and engagements and contracts where services are provided under fixed-fees arrangements that have multiple performance obligations. The Company has not completed an assessment and has not yet determined whether the impact of the adoption of this standard on the consolidated financial statements will be material. The Company will adopt this standard on January 1, 2018 but have not concluded on a transition approach. The Company expects to complete the assessment process, including selecting a transition method for adoption during third quarter of 2017.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments in this update do not change the core principle of the guidance as noted above at ASU No. 2014-09. The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU No. 2014-09. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*: Improvements to Employee Share-Based Payment Accounting. The amendments in this update involve simplification in several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update require both prospective and retrospective application with earlier application permitted as of the beginning of an interim or annual reporting period. The Company adopted this update effective

January 1, 2016. The impact of this update resulted in a decrease to income tax expense in the amount of $0.4 million during the year ended December 31, 2016. There was no material impact to prior period results of operations as a result of adopting this update.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for us in our first quarter of fiscal year 2019 , but early application is permitted . The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

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

NOTE 3— ACQUISITIONS

Acquisition of United Online, Inc.

On May 4, 2016, the Company entered into a definitive agreement and plan of merger to acquire all of the outstanding common stock of UOL, a provider of consumer Internet access and related subscription services, for $11.00 per share, or approximately $169,354 in aggregate merger consideration. The consideration includes $10,381 that remains payable at December 31, 2016, which is included in acquisition consideration payable in the consolidated balance sheet, pending the outcome of the legal matter more fully described in Note 12. The shareholders of UOL approved the acquisition on June 29, 2016 and customary closing conditions were satisfied and the acquisition was completed on July 1, 2016. The acquisition of UOL allows the Company to benefit from the expected cash flows of UOL due in part to planned synergies from the elimination of duplicate overhead functions with the Company. The acquisition of UOL is accounted for using the purchase method of accounting.

The assets and liabilities of UOL, both tangible and intangible, were recorded at their estimated fair values as of the July 1, 2016 acquisition date for UOL. The application of the purchase method of accounting resulted in goodwill of $14,375 which represents expected overhead synergies and acquired workforce. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of UOL were charged against earnings in the amount of $957 and included in selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2016. The preliminary purchase accounting for the acquisition has been accounted for as a stock purchase with all of the recognized goodwill is expected to be non-deductible for tax purposes.

The preliminary purchase price allocation was as follows:

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

The revenue and earnings of UOL included in our consolidated financial statements for the period from July 1, 2016 (the date of acquisition) through December 31, 2016 was $31,521 and $5,716, respectively.

Acquisition of MK Capital

On January 2, 2015 the Company entered into a purchase agreement to acquire all of the equity interests of MK Capital Advisors, LLC ("MK Capital"), a wealth management business with operations primarily in New York. On February 2, 2015, the closing conditions were satisfied and the Company completed the purchase of MK Capital for a total purchase price of $9,386. The purchase price is comprised of a cash payment in the amount of $2,500 and 333,333 newly issued shares of the Company's common stock at closing which were valued at $2,687 for accounting purposes determined based on the closing market price of the Company's shares of common stock on the acquisition date on February 2, 2015, less a 19.4% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of $2,229 and the issuance of common stock with a fair value of $1,970. The contingent cash consideration of $2,229 was recorded based on the payment of the contingent cash consideration of $1,250 on the first anniversary date of the closing (February 2, 2016) and a final cash payment of $1,250 on the second anniversary date of the closing (February 2, 2017) to the former members of MK Capital discounted at 8.0% per annum (initial discount of $271). In accordance with ASC 805, “Business Combination” (“ASC 805”), the contingent consideration liability has been classified as a liability on the acquisition date. Imputed interest expense totaled $101 and $162 for the year ended December 31, 2016 and 2015, respectively. At December 31, 2016, the balance of the contingent consideration liability was $1,242 (discount of $8 at December 31, 2016) and has been recorded as contingent consideration liability – current portion in the consolidated balance sheet. At December 31, 2015, the balance of the contingent consideration liability was $2,391 (discount of $109 at December 31, 2015) and has been recorded as contingent consideration liability – current portion in the amount of $1,241 and contingent consideration liability, net of current portion in the amount of $1,150 in the consolidated balance sheet.

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

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

The purchase price allocation was as follows:

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

The revenue and earnings of MK Capital included in our consolidated financial statements for the period from February 2, 2015 (the date of acquisition) through December 31, 2015 was $1,772 and $457, respectively.

Acquisition of B. Riley and Co. Inc.

On June 18, 2014, the Company 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. The Company completed the acquisitions of BRH and RIM on August 1, 2014 in accordance with the terms of the Acquisition Agreement.

The Company acquired BRC Inc. in exchange for the issuance of 4,182,637 shares of newly issued for a total purchase price of $26,351. The fair value of the newly issued shares of the Company's common stock for accounting purposes was determined based on the closing market price of the Company's shares of common stock on the acquisition date on June 18, 2014, less a 25% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The BRC Inc. acquisition has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the June 18, 2014 acquisition date for BRC Inc. and August 1, 2014 for BRH and RIM. The application of the acquisition method of accounting resulted in goodwill of $21,869 which is not deductible for tax purposes. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of BRC Inc. in the amount of $997 were charged against earnings in the second quarter of 2014. All of the recognized goodwill is expected to be non-deductible for tax purposes.

The purchase price allocation was as follows:

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

The revenue and earnings of BRC included in our consolidated financial statements for the period from June 18, 2014 (the date of acquisition) through December 31, 2014 was $19,420 and $5,244, respectively.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and UOL, as though it had occurred as of January 1, 2015. The pro forma financial information presented includes the effects of adjustments related to the amortization charges from the acquired intangible assets and the elimination of certain activities excluded from the transaction. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results**.**

	Pro Forma Unaudited Year Ended December 31,	
	2016	2015
Revenues	$226,806	$202,752
Net income attributable to B. Riley Financial, Inc.	$13,288	$9,347

Basic earnings per share	$0.73	$0.58
Diluted earnings per share	$0.72	$0.57
Weighted average basic shares outstanding	18,106,621	16,221,040
Weighted average diluted shares outstanding	18,391,852	16,265,915

NOTE 4— RESTRUCTURING CHARGE

During the second quarter of 2014, the Company initiated a strategic review of our operations taking into account the planned synergies as a result of the acquisition of BRC. On August 13, 2014, as a result of the strategic review, our Board of Directors ratified and approved the Company's implementation of cost savings measures that resulted in a reduction in corporate overhead and the restructuring of our operations in Europe. The Company implemented a reduction in force for some of our corporate employees and a significant number of our employees in the United Kingdom and we closed our offices in Deerfield, Illinois and London, England. These initiatives resulted in a restructuring charge of $2,548 in the third quarter of 2014. The restructuring charge consists of payroll and severance costs of $1,595, office closure costs of $686 and other expenses of $267.

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

The related accruals are included in accounts payable and accrued expenses in the consolidated balance sheet. The following table summarizes the restructuring charge during 2014, 2015 and 2016:

	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Corporate and Other Expenses	Total
Expensed during 2014:					
Payroll and severance costs	$ 951	$ 131	$ -	$ 513	$1,595
Office closure	295	8	-	383	686
Other charges	93	64	-	110	267
Total expended during the 2014	1,339	203	-	1,006	2,548
Paid during 2014	1,208	203	-	647	2,058
Accrued balance at December 31, 2014	131	-	-	359	490
Paid during 2015	91	-	-	212	303
Accrued balance at December 31, 2015	40	-	-	147	187
Expensed during 2016:					
Employee termination and severance costs	-	-	3,474	-	3,474
Office closure	-	-	-	413	413
Total expended during the 2016	-	-	3,474	413	3,887
Paid during 2016	40	-	3,083	257	3,380
Accrued balance at December 31, 2016	$ -	$ -	$ 391	$ 303	$694

NOTE 5— ACCOUNTS RECEIVABLE

The components of accounts receivable net include the following:

	December 31, 2016	December 31, 2015
Accounts receivable	$ 16,610	$ 8,417
Investment banking fees, commissions and other receivables	576	709
Unbilled receivables	2,058	435
Total accounts receivable	19,244	9,561
Allowance for doubtful accounts	(255)	(89)
Accounts receivable, net	$ 18,989	$ 9,472

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

	Year Ended December 31,		
	2016	2015	2014
Balance, beginning of year	$ 89	$ 728	$ 275
Add: Additions to reserve	710	718	532
Less: Write-offs	(194)	(1,056)	(79)
Less: Recoveries	(350)	(301)	-
Balance, end of year	$ 255	$ 89	$ 728

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

At December 31, 2015, accounts receivable in the amount of $3,922 were collateralized by the accounts receivable revolving line of credit more fully described in Note 10.

NOTE 6— GOODS HELD FOR SALE OR AUCTION

At December 31, 2016, there were no goods held for sale or auction. At December 31, 2015, goods held for sale or auction with a carrying value of $37 consisted of aircraft parts which included a lower of cost or market adjustment of $1,330. The total amount recorded by the Company for a lower-of-cost or market adjustment for goods held for sale or auction was $33 and $4,673 during the years ended December 31, 2015 and 2014, respectively.

In 2014, machinery and equipment, which consisted of five oil rigs with a carrying value of $4,026 served as collateral for the note payable collateralized by machinery and equipment which had an outstanding principal balance of $6,570 as of December 31, 2014. The machinery and equipment was owned by Great American Group Energy Equipment, LLC ("GAGEE"), a wholly-owned special purpose subsidiary of the Company, which filed for bankruptcy in the first quarter of 2015 as more fully described in Note 11. As a result of the bankruptcy filing, the asset and liabilities of GAGEE including the machinery and equipment is no longer consolidated in the Company's consolidated financial statements.

NOTE 7— PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated Useful Lives	December 31, 2016	2015
Leasehold improvements	Shorter of the remaining lease term or estimated useful life	$2,325	$311
Machinery, equipment and computer software	3 years	6,559	2,400
Furniture and fixtures	5 years	1,921	1,160
Capital lease equipment	3 to 5 years	-	388
Total		10,805	4,259
Less: Accumulated depreciation and amortization		(5,020)	(3,667)
		$5,785	$592

Depreciation expense was $1,052, $417 and $505 during the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 8— GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2016 were as follows:

	Capital Markets Segment	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Total
Balance as of December 31, 2014	$21,869	$ 1,975	$ 3,713	$ -	$27,557
Goodwill acquired during the period:					
MK Capital acquisition on February 2, 2015	6,971	-	-	-	6,971
Balance as of December 31, 2015	$28,840	$ 1,975	$ 3,713	$ -	$34,528
Goodwill acquired during the period:					
United Online on July 1, 2016	-	-	-	14,375	14,375
Balance as of December 31, 2016	$28,840	$ 1,975	$ 3,713	$ 14,375	$48,903

Intangible assets consisted of the following:

		December 31, 2016			December 31, 2015		
	Useful Life	Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Customer relationships	4 to 13 Years	$37,300	$ 3,100	$ 34,200	$3,600	$ 572	$ 3,028
Domain names	7 Years	1,419	101	1,318			
Advertising relationships	8 Years	100	6	94	-	-	-
Internally developed software	0.5 to 4 Years	3,333	550	2,783	-	-	-
Tradenames	8 Years	1,100	69	1,031	-	-	-
		43,252	3,826	39,426	3,600	572	3,028
Non-amortizable assets:							
Tradenames		1,740	-	1,740	1,740	-	1,740
Total intangible assets		$44,992	$ 3,826	$ 41,166	$5,340	$ 572	$ 4,768

Amortization expense was $3,254, $431 and $141 for the years ended December 31, 2016, 2015 and 2014, respectively. At December 31, 2016, estimated future amortization expense is $5,909, $5,656, $5,552, $5,170 and $4,787 for the years ended December 31, 2017, 2018, 2019, 2020 and 2021, respectively. The estimated future amortization expense after December 31, 2021 is $12,352.

NOTE 9— LEASING ARRANGEMENTS

The Company has several noncancellable operating leases that expire at various dates through 2022. Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are:

	Operating Leases
Year Ending December 31:	
2017	$ 3,925
2018	3,211
2019	2,108

2020	1,109
2021	290
Thereafter	164
Total minimum lease payments	$ 10,807

Rent expense under all operating leases was $3,205, $2,376 and $2,107 for the years ended December 31, 2016, 2015, and 2014, respectively. Rent expense is included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

NOTE 10— CREDIT FACILITIES

Credit facilities consist of the following arrangements:

(a) $100,000 Asset Based Credit Facility

On July 15, 2013, the Company entered into a Second Amended and Restated Credit Agreement (“Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo Bank”) that amended and restated that certain First Amended and Restated Credit Agreement dated as of December 31, 2010. The maximum revolving loan amount under the asset based credit facility remains at $100,000, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect), and the maturity date has been extended from July 16, 2013 to July 15, 2018. The asset based credit facility can be used for borrowings and letter of credit obligations up to the aggregate amount of $100,000, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect). The interest rate for each revolving credit advance under the Credit Agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. The restated Credit Agreement removed the Company’s United Kingdom subsidiary as a party to such agreement and the concept of borrowings thereunder for certain transactions in the United Kingdom. On March 19, 2014, the Company entered into a separate credit agreement (a “UK Credit Agreement”) with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. The facility allows the Company to borrow up to 50,000 British Pounds. Any borrowings on the UK Credit Agreement reduce the availability on the asset based $100,000 credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. On October 5, 2016 the Company amended the Credit Agreement to add the Company’s Canadian subsidiary in order to facilitate borrowings to fund retail liquidation transactions in Canada. Cash advances and the issuance of letters of credit under the credit facility are made at the lender’s discretion. The letters of credit issued under this facility are furnished by the lender to third parties for the principal purpose of securing minimum guarantees under liquidation services contracts more fully described in Note 2(c). All outstanding loans, letters of credit, and interest are due on the expiration date which is generally within 180 days of funding. The credit facility is secured by the proceeds received for services rendered in connection with liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract. The credit facility also provides for success fees in the amount of 5% to 20% of the net profits, if any, earned on the liquidation engagements funded under the Credit Agreement as set forth therein. Interest expense totaled $1,109 (including success fees of $732), $343 (including success fees of $119) and $400 (including success fees of $162) for the years ended December 31, 2016, 2015 and 2014, respectively. There was no outstanding balance under this credit facility at December 31, 2016 and 2015.

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The Credit Agreement governing the credit facility contains certain covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Agreement, the lender may cease making loans, terminate the Credit Agreement and declare all amounts outstanding under the Credit Agreement to be immediately due and payable. The Credit Agreement specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, nonpayment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults, and material judgment defaults.

(b) Line of Credit

On May 17, 2011, one of our majority owned subsidiaries entered into a Loan and Security Agreement (Accounts Receivable Line of Credit) (the "Line of Credit") with BFI Business Finance ("BFI"). The Line of Credit is collateralized by the accounts receivable of such subsidiary and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Line of Credit, with maximum borrowings not to exceed $2,000. The interest rate under the Line of Credit is the prime rate plus 2% (6.5% at December 31, 2015), payable monthly in arrears. The Line of Credit was amended effective February 3, 2012 and the maximum borrowings allowed was increased from $2,000 to $3,000. On December 7, 2015, the Company notified BFI to terminate the line of credit upon maturity on February 3, 2016. At December 31, 2015, there was $3,922 of accounts receivable as collateral for the Line of Credit and the total borrowings outstanding was $272 and $2,738 was available and unused. Interest expense totaled $84 and $46 for the years ended December 31, 2015 and 2014, respectively.

NOTE 11— NOTES PAYABLE

(a) $28,750 Senior Note Payable

On November 2, 2016, the Company issued $28,750 of Senior Notes Payable ("Senior Notes") due in 2021, interest payable quarterly at 7.5% commencing January 31, 2017. The Senior Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the Senior Notes the Company received net proceeds of $27,664 (after underwriting commissions, fees and other issuance costs of $1,086). The Senior Notes in the amount of $27,700 in the consolidated balance sheet is recorded net of unamortized debt issue costs of $1,050 at December 31, 2016. In connection with the offering of $28,750 of Senior Notes, certain members of management and the Board of Directors of the Company purchased $2,731 or 9.5% of the Senior Notes offered by the Company. Interest expense on the Senior Notes totaled $360 for the year ended December 31, 2016.

(b) Australian Dollar $80,000 Note Payable

In August 2016, the Company formed GA Retail Investments, L.P., a Delaware limited partnership, (the "Partnership") which required the Company to contribute $15,350. The Partnership borrowed $80,000 Australian dollars from a third party investor in connection with its formation and the $80,000 Australian dollars was exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement the Company entered into to liquidate the Masters Home Improvement stores. The $80,000 Australian dollar participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and was subject to repayment upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. Although the terms of the participating note payable included the issuance of a 50% equity interest in the Partnership, sharing in all profits and losses of the Partnership, and no repayment until certain events occur, in accordance with ASC 480 Distinguishing Liabilities From Equity, this financial instrument was classified as a participating note payable. The $80,000 Australian dollar participating note payable was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At December 31, 2016, $10.0 million was payable in accordance with the participating note payable share of profits and is included in net income attributable to noncontrolling interests and amounts due to related parties and partners in the consolidated financial statements.

(c) Note Payable Collateralized by Machinery and Equipment

On May 29, 2008, GAGEE entered into a credit agreement with Garrison Special Opportunities Fund LP and Gage Investment Group LLC (collectively, the “Lenders”) to finance the purchase of certain machinery and equipment to be sold at auction or liquidation. The principal amount of the loan was $12,000 and borrowings bore interest at a rate of 20% per annum. The loan is collateralized by the machinery and equipment which were purchased with the proceeds from the loan as more fully described in Note 6. GAGEE was required to make principal and interest payments from proceeds from the sale of the machinery and equipment. GAGEE is a special purpose entity created to purchase the machinery and equipment, whose assets consist only of the machinery and equipment in question and whose liabilities are limited to the Lenders’ note and certain operational expenses related to this transaction. Great American Group, LLC guaranteed GAGEE’s liabilities to the Lenders up to a maximum of $1,200. The original maturity date of the loan was May 29, 2009; however, GAGEE exercised its right to extend the maturity date for 120 days until September 26, 2009. On September 26, 2009, the note payable became due and payable.

On October 8, 2009, GAGEE and Great American Group, LLC entered into a Forbearance Agreement effective as of September 27, 2009 (the “Forbearance Agreement”) with the Lenders and Garrison Loan Agency Services LLC (the “Administrative Agent”), relating to the credit agreement, by and among GAGEE, as borrower, Great American Group, LLC, as guarantor, the Lenders and the Administrative Agent. Pursuant to the terms of the Forbearance Agreement, the Lenders agreed to forbear from exercising any of the remedies available to them under the credit agreement and the related security agreement unless a forbearance default occurs, as specified in the Forbearance Agreement. Pursuant to the Forbearance Agreement, and further amendments to the credit agreement for which the most recent amendment which was effective December 31, 2013 the maturity date of the note payable was extended to June 30, 2015 and the interest rate remained at 0% through maturity.

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code. GAGEE has no assets other than those collateralizing the loan. At December 31, 2014, GAGEE had total assets of $6,557 and total liabilities of $6,570. Total assets included $2,531 of other receivables included in prepaid and other current assets and $4,026 of goods held for sale which was comprised of five oil rigs (see Note 6). Total liabilities include the $6,570 of notes payable that is collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets of GAGEE which included $2,531 of other receivables and $4,026 of goods held for sale which was comprised of five oil rigs were no longer consolidated in the Company's consolidated financial statements for periods subsequent to such bankruptcy filing. In January 2015, upon GAGEE’s filing for bankruptcy the Company recorded a loss on the deconsolidation of GAGEE of $13. On June 29, 2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE’s liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

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

In March 2015, the Company had capital deployed for three retail liquidation engagements. On March 10, 2015, the Company borrowed $4,500 from Riley Investment Partners, L.P. (“RIP”) in accordance with the subordinated unsecured promissory note (the “RIP Note”). The principal amount of $4,500 for the RIP Note accrued interest at the rate of 10% per annum (or 15% in the event of a default under the RIP Note). The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. RIP was also entitled to a success fee (the “Success Fee”) of 20% of the net profit, if any, earned by the Company in connection with a designated liquidation transaction. Pursuant to the terms of the RIP Note, under no circumstances was the Company obligated to pay RIP any portion of the combined amount of interest and the Success Fee which exceeded twelve percent (12%) of the $4,500 principal amount of the RIP Note. The outstanding principal amount, together with the accrued and unpaid interest and the Success Fee, were due and payable by the Company on March 9, 2016. The RIP Note was subordinated in certain respects to the Company’s guaranty relating to its existing credit facility with Wells Fargo Bank, National Association and, in the event of certain insolvency proceedings, with respect to such credit facility itself, as well as to any other indebtedness of the Company to the extent required by the documents governing the repayment thereof. Interest expense on the RIP Note totaled $194 for the year ended December 31, 2015, which includes success fees of $126. The RIP Note was repaid on May 4, 2015.

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

(e) $60,000 Notes Payable

As of December 31, 2013, there was $50,483 of aggregate principal balance outstanding on the original $60,000 of notes payable. Of the $50,483 outstanding principal balance at December 31, 2013, $48,759 was owed to Andrew Gumaer, a member of our Board of Directors and an executive officer, and Harvey Yellen, a former director and executive officer (all of which accrued interest at 3.75%) and $1,724 was owed to other related parties, $1,084 of which accrued interest at 3.75% and $640 of which accrued interest at 12.0%.

On January 31, 2014, the Company paid in full the $640 of principal balance for the notes that had the 12.0% interest rate. The remaining $1,084 of principal amount payable had a maturity date of July 31, 2014. The $48,759 principal amount payable to Messrs. Gumaer and Yellen had a maturity date of July 31, 2018. On June 5, 2014, the Company used $30,180 of the net proceeds from the Private Placement (see note 17(c)) to repay the Notes payable to Andrew Gumaer and Harvey Yellen. The $30,000 principal payment and then outstanding accrued interest of $180 retired the entire $48,759 face amount of outstanding Notes payable to Andrew Gumaer and Harvey Yellen. The discount of $18,759 for the repayment of the Notes payable to Andrew Gumaer and Harvey Yellen has been recorded as a capital contribution to additional paid in capital in our consolidated financial statements. On July 31, 2014, the remaining outstanding principal amount of $1,085 was paid in full to the phantom equityholders of Great American Group, LLC. As of August 1, 2014, there was no remaining outstanding principal or interest payable on the notes payable. Interest expense was $812 for the year ended December 31, 2014.

NOTE 12— COMMITMENTS AND CONTINGENCIES

(a) Letters of Credit

At December 31, 2016, there was a letter of credit is the amount of $465 which was maintained pursuant to lease arrangements and contractual obligations. There were no letters of credit outstanding at December 31, 2015.

(b) Legal Matters

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

In January 2015, the Company was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding is pending in the bankruptcy case of the debtor and its affiliates (the “Debtor”). In the lawsuit, a former landlord of the Debtor generally alleges that the Company and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking approximately $10,000 in damages. The Company filed a motion to dismiss the lawsuit and in March 2016 the Court issued its opinion dismissing some claims while denying the motion with respect to other claims. In April 2016, the Company filed an answer with the Court denying the allegations in the complaint. In December 2016, the parties exchanged initial disclosures. In January 2017, the parties filed a proposed scheduling order with the Court. Discovery in the action is currently proceeding. The Company is vigorously defending this lawsuit. This lawsuit is in the initial stages, and the financial impact to the Company, if any, cannot be estimated.

On July 5, 2016, Quadre Investments LP (“Quadre”) filed a petition with the Delaware Court of Chancery (the “Court”) seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by the Company. Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre is entitled to petition the Court to receive fair value as determined by the Court. The Company does not believe that the fair value of each share exceeds $11.00 per share, the acquisition consideration paid to UOL stockholders pursuant to the agreement to acquire UOL, and the Company intends to contest the petition. Discovery in the case has commenced. As of December 31, 2016, the Company has recorded approximately $10,381 of acquisition consideration payable and approximately $310 of accrued interest payable in connection with the Quadre petition.