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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
Or

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

For the transition period from to

Commission File Number 000-54010

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

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

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

(818) 884-3737
(Registrant's telephone number, including area code)

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

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

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

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

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

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

B. Riley Financial, Inc.

Quarterly Report on Form 10-Q

For The Quarter Ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollars in thousands, except par value)

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

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except share data)

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

The accompanying notes are an integral part of these condensed

consolidated
financial
statements.

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(Dollars in thousands)

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Equity (Deficit)

(Unaudited)

(Dollars in thousands)

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

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

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

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B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

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

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

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

Reverse Stock Split

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

Private Placement

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

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

Registration Statement

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Basis of Presentation

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

(b) Use of Estimates

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

(c) Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

(d) Direct Cost of Services

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

(e) Concentration of Risk

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

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

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

(f) Income Taxes

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

(g) Cash and Cash Equivalents

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

(h) Restricted Cash

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

(i) Accounts Receivable

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

(j) Advances Against Customer Contracts

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

(k) Goods Held for Sale or Auction

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

(l) Property and Equipment

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

(m) Securities Owned and Securities Sold Not Yet Purchased

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

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

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

(n) Fair Value Measurements

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

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

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

Mutual funds	3,013	3,013	—	—
Corporate bonds	501	501	—	—
Partnership interests and other securities	7,162	—	5,996	1,166
Total assets measured at fair value	$17,548	$10,360	$ 5,996	$ 1,192
Liabilities:				
Securities sold not yet purchased				
Common stocks	$5,395	$5,395	$ —	$ —
Corporate bonds	1,086	—	1,086	—
Contingent consideration	2,347	—	—	2,347
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	2,278	—	—	2,278
Total liabilities measured at fair value	$11,106	$5,395	$ 1,086	$ 4,625

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2014, Using			
	Fair Value at December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$16,667	$16,348	$ —	$ 319
Corporate bonds	1,188	—	1,188	—
Partnership interests and other securities	100	—	100	—
Total assets measured at fair value	$17,955	$16,348	$ 1,288	$ 319
Liabilities:				
Securities sold not yet purchased Corporate bonds	$746	$—	$ 746	$ —
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$2,285	$—	$ —	$ 2,285
Total liabilities measured at fair value	$3,031	$—	$ 746	$ 2,285

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

	Level 3 Balance at Beginning of Period	Level 3 Changes During the Period: 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
Nine Months Ended September 30, 2015						
Common stocks	$ 319	$—	$ —	$ (293)	$ —	$ 26
Partnership interests	$ —	$ 41	$ —	$ 1,125	$ —	$ 1,166
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,285	$—	$ (7)	$ —	$ —	$ 2,278
Contingent consideration (1)	$ —	$ 2,347	$ —	$ —	$ —	$ 2,347
Nine Months Ended September 30, 2014						
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,273	$—	$ (48)	$ —	$ —	$ 2,225

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

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

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

(o) Derivative Instruments and Hedging Activity

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain auction and liquidation engagements with operations outside the United States. At September 30, 2015, the Company's use of derivatives consists of a forward exchange contract agreement in the amount of $1,870 Canadian dollars. The forward exchange contract was originally required to be settled anytime between June 27, 2015 and August 31, 2015 and in August 2015 the settlement date was extended to November 30, 2015. The net gains and losses from foreign exchange contracts are reported as a component of selling, general and administrative expenses in the condensed consolidated financial statements. The net gain from forward exchange contracts was $68 and $28 during the three and nine months ended September 30, 2015.

(p) Foreign Currency Translation

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

(q) Share-based Compensation

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

(r) Supplemental Cash Flows Disclosure

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

(s) Reclassifications

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

(t) Recent Accounting Pronouncements

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

NOTE 3— ACQUISITIONS

Acquisition of MK Capital

On January 2, 2015 the Company entered into a purchase agreement to acquire all of the equity interests of MK Capital, a wealth management business with operations primarily in New York. The terms of the purchase agreement required the sellers to meet certain pre-closing conditions. On February 2, 2015, the closing conditions were satisfied and the Company completed the purchase of MK Capital for a total purchase price of $9,386. The purchase price is comprised of a cash payment in the amount of $2,500 and 333,333 newly issued shares of the Company's common stock at closing which were valued at $2,687 for accounting purposes determined based on the closing market price of the Company's shares of common stock on the acquisition date on February 2, 2015, less a 19.4% discount for lack of marketability as the shares issued are subject to certain restrictions that limit their trade or transfer. The purchase agreement also requires the payment of contingent consideration in the form of future cash payments with a fair value of $2,229 and the issuance of common stock with a fair value of $1,970. The contingent cash consideration of $2,229 has been recorded based on the payment of the contingent cash consideration of $1,250 on the first anniversary date of the closing (February 2, 2016) and a final cash payment of $1,250 on the second anniversary date of the closing (February 2, 2017) to the former members of MK Capital discounted at 8.0% per annum (initial discount of $271). In accordance with ASC 805, "Business Combination", the contingent consideration liability has been classified as a liability on the acquisition date. Imputed interest expense totaled $45 and $118 for the three and nine months ended September 30, 2015. The balance of the contingent consideration liability was $2,347 at September 30, 2015 (discount of $153 at September 30, 2015) and has been recorded as contingent consideration liability – current portion in the amount of $1,218 and contingent consideration liability, net of current portion in the amount of $1,129 in the condensed consolidated balance sheet. The fair value of the contingent stock consideration in the amount of $1,970 has been classified as equity in accordance with ASC 805, “Business Combinations”, and is comprised of the issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash and stock consideration is payable on the first and second anniversary dates of the closing provided that MK Capital generates a minimum amount of gross revenues as defined in the purchase agreement for the twelve months following the first and second anniversary dates of the closing. The acquisition of MK Capital allows the Company to expand into the wealth management business.

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

The preliminary purchase price allocation was as follows:

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

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

	Three Months Ended September 30, 2015	Period from February 2, 2015 through September 30, 2015
Revenues	$ 479	$ 1,285
Income before income taxes	107	226

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

2014 Acquisition of B. Riley and Co. Inc.

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

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

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

The purchase price allocation was as follows:

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

Pro Forma Financial Information

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

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

NOTE 4— ACCOUNTS RECEIVABLE

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

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

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

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

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

NOTE 5— GOODS HELD FOR SALE OR AUCTION

	September 30, 2015	December 31, 2014
Machinery and equipment	$ —	$ 4,026
Aircraft parts and other	39	91
Total	$ 39	$ 4,117

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

The machinery and equipment with a carrying value of $4,026 as of December 31, 2014 served as collateral for the related note payable, which had an outstanding principal amount of $6,570 as of December 31, 2014. The machinery and equipment was owned by GAGEE, a wholly-owned special purpose subsidiary of the Company, which filed for bankruptcy in the first quarter of 2015 as more fully described in Note 8. As a result of the bankruptcy filing, the asset and liabilities of GAGEE including the machinery and equipment of $4,026 at December 31, 2014, is no longer consolidated in the Company’s consolidated financial statements.

NOTE 6— GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

NOTE 7— CREDIT FACILITIES

Credit facilities consist of the following arrangements:

(a)$100,000 Asset Based Credit Facility

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

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

(b) Line of Credit

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

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NOTE 8— NOTES PAYABLE

Notes-payable debt consists of the following arrangements:

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

(a) Note Payable Collateralized by Machinery and Equipment

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

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

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code. At December 31, 2014, GAGEE had total assets of $6,557 and total liabilities of $6,570. Total assets included $2,531 of other receivables included in prepaid and other current assets and $4,026 of goods held for sale which was comprised of five oil rigs (see Note 5). Total liabilities include the $6,570 of notes payable discussed above that is collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets and liabilities of GAGEE described above are no longer consolidated in the Company's consolidated financial statements for periods subsequent to such bankruptcy filing. In January 2015, upon GAGEE’s filing for bankruptcy the Company recorded a loss on the deconsolidation of GAGEE of $13. On June 29, 2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE’s liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

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

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

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

(c) $60,000 Note Payable

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

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

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

NOTE 9— INCOME TAXES

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

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

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

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

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

NOTE 10— EARNINGS PER SHARE

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period. Basic common shares outstanding exclude 66,000 common shares that are held in escrow and subject to forfeiture that were issued to the former Great American members upon the final settlement of claims for goods held for sale in connection with the Acquisition. Dilutive common shares outstanding includes contingently issuable shares that are currently in escrow and subject to release if the conditions for the final settlement of claims for goods held for sale in connection with the Acquisition were satisfied at the end of the respective periods. Weighted average diluted shares outstanding during the three and nine months ended September 30, 2014 exclude 58,212 shares from the computation of net loss per diluted share because the impact would have been anti-dilutive.

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

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

NOTE 11— COMMITMENTS AND CONTINGENCIES

Legal Matters

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

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

Commitments

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

NOTE 12— SHARE BASED PAYMENTS

During the nine months ended September 30, 2015, the Company granted restricted stock units representing 514,466 shares of common stock with a total fair value of $5,125 to certain employees and directors of the Company. Of the 514,466 restricted stock units, the shares of common stock underlying such awards are issuable upon vesting as follows: 357 shares on July 31, 2015, 16,842 shares on December 10, 2015 and the remaining 497,267 shares, one-third on December 10, 2015, one-third on December 10, 2016, and one-third on December 10, 2017. In addition, 5,859 restricted stock units that were previously issued to the directors of the Company in 2014 vested on July 31, 2015. Share based compensation expense for these restricted stock units was $727 and $1,193 during the three and nine months ended September 30, 2015. On May 9, 2015, the Company also paid a stock bonus amounting to 5,600 fully vested shares of common stock with a total value of $59 to certain employees. Of the 5,600 common shares that vested upon grant, 2,304 common shares were forfeited by the employees to pay for employment withholding taxes during the second quarter of 2015. During the nine months ended September 30, 2015, 9,324 restricted stock units were forfeited and there are 505,142 restricted stock units that remain unvested as of September 30, 2015. As of September 30, 2015, the expected remaining unrecognized share based compensation expense of $3,938 will be expensed over a weighted average period of 1.4 years.

NOTE 13— RELATED PARTY TRANSACTIONS

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

NOTE 14— BUSINESS SEGMENTS

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

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

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

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

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

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

NOTE 15— NET CAPITAL REQUIREMENTS

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

NOTE 16— SUBSEQUENT EVENTS

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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

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

Overview

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

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

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

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

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

Private Placement and Strategic Combination

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

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

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

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

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

Recent Developments

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

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

On January 11, 2015, GAGEE filed a voluntary petition with the United States Bankruptcy Court for the Northern District of Texas for relief under Chapter 7 of Title 11 of the United States Code. At December 31, 2014, GAGEE had total assets of $6.6 million and total liabilities of $6.6 million. Total assets included $2.5 million of other receivables included in prepaid and other current assets and $4.0 million of goods held for sale which was comprised of five oil rigs. Total liabilities include the $6,570 of notes payable discussed above that is collateralized by the assets of GAGEE. As a result of such bankruptcy filing, the assets and liabilities of GAGEE described above are no longer consolidated in our consolidated financial statements for periods subsequent to such bankruptcy filing. The loss on deconsolidation of GAGEE was less than $0.1 million during the nine months ended September 30, 2015. On June 29, 2015, the trustee handling the bankruptcy case for GAGEE was discharged and the bankruptcy case was closed. As a result of this process, the Lenders are proceeding with the disposition of the assets of GAGEE in accordance with their security interest in connection with their loan. At the present time, the Company does not have any remaining investment or any obligations with respect to GAGEE's liabilities. The Company intends to dissolve GAGEE and wind up its business. If any future expenses or losses are incurred by GAGEE during its wind up, the Company will record its share of losses under the equity method of accounting. Management does not expect these events or any subsequent related actions regarding GAGEE will have a material impact on the consolidated financial position of the Company.

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

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

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

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

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

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

Critical Accounting Policies

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

Results of Operations

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

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Condensed Consolidated Statements of Operations

(Dollars in thousands)

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

Revenues.

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

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

n/m - Not applicable or not meaningful.

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

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

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

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

Sale of Goods, Cost of Goods Sold and Gross Margin

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

Operating Expenses

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

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
		Total		Total

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

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

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

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

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

Selling, General and Administrative Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

Condensed Consolidated Statements of Operations

(Dollars in thousands)

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

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

Revenues.

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

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

n/m - Not applicable or not meaningful.

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

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

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

Revenues from services and fees in the capital markets segment were $30.3 million during the nine months ended September 30, 2015. Capital markets segment revenues include revenues from BRC during the nine months related to investment banking fees of $14.9 million, commissions, fees and other income primarily earned from research, sales and trading, and wealth management services of $13.6 million, and trading gains of $1.8 million. During the nine months ended September 30, 2014, revenues in the capital markets segment were $9.9 million which included revenues for the period from June 18, 2014 to September 30, 2014 as a result of our acquisition of BRC on June 18, 2014.

Sale of Goods, Cost of Goods Sold and Gross Margin

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

Operating Expenses

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

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

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

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

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

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

Selling, General and Administrative Expenses

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

Cash Flow Summary

Nine Months

**Ended
September
30,**