B. Riley Financial, Inc.
Form 10-Q
November 15, 2016

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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2016**

**Or**

| | |
|---|---|
| o | **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<br><br>Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**21255 Burbank Boulevard, Suite 400**

| | |
|---|---|
| **Woodland Hills, CA** | **91367** |
| (Address of Principal Executive Offices) | (Zip Code) |

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

**21860 Burbank Blvd., Suite 300 South, Woodland Hills, CA**

(Former name, former address and former fiscal year, if changed since last report)

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

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 x No o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

(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 o No x

As of November 11, 2016, there were 19,043,072 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, 2016**

**Table of Contents**

**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, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,474 | $ 30,012 |
| Restricted cash | 78,287 | 51 |
| Securities owned, at fair value | 9,028 | 25,543 |
| Accounts receivable, net | 15,112 | 9,472 |
| Due from related parties | 731 | 409 |
| Advances against customer contracts | 5,020 | 5,013 |
| Goods held for sale or auction | 9,145 | 37 |
| Prepaid expenses and other current assets | 4,543 | 2,415 |
| Total current assets | 148,340 | 72,952 |
| Property and equipment, net | 5,765 | 592 |
| Goodwill | 52,634 | 34,528 |
| Other intangible assets, net | 40,913 | 4,768 |
| Deferred income taxes | 11,509 | 18,992 |
| Other assets | 2,193 | 588 |
| Total assets | $ 261,354 | $ 132,420 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 4,188 | $ 1,123 |
| Accrued payroll and related expenses | 9,404 | 7,178 |
| Accrued value added tax | 900 | 1,785 |
| Accrued expenses and other liabilities | 18,279 | 5,806 |
| Auction and liquidation proceeds payable | — | 672 |
| Deferred revenue | 3,863 | — |
| Due to related parties | — | 166 |
| Securities sold not yet purchased | 370 | 713 |

| | | |
|---|---|---|
| Acquisition consideration payable | 10,381 | — |
| Participating note payable | 60,822 | — |
| Mandatorily redeemable noncontrolling interests | 2,764 | 2,994 |
| Revolving credit facilities | — | 272 |
| Contingent consideration- current portion | 1,219 | 1,241 |
| Total current liabilities | 112,190 | 21,950 |
| Other liabilities | 5,570 | — |
| Contingent consideration, net of current portion | — | 1,150 |
| Total liabilities | 117,760 | 23,100 |
| Commitments and contingencies | | |
| B. Riley Financial, Inc. stockholders' equity: | | |
| Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued | — | — |
| Common stock, $0.0001 par value; 40,000,000 shares authorized; 19,043,072 and 16,448,119 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively | 2 | 2 |
| Additional paid-in capital | 141,389 | 116,799 |
| Retained earnings (deficit) | 2,210 | (6,305) |
| Accumulated other comprehensive loss | (1,098) | (1,058) |
| Total B. Riley Financial, Inc. stockholders' equity | 142,503 | 109,438 |
| Noncontrolling interests | 1,091 | (118) |
| Total equity | 143,594 | 109,320 |
| Total liabilities and equity | $ 261,354 | $ 132,420 |

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, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Services and fees | $50,300 | $21,150 | $90,505 | $82,176 |
| Sale of goods and products | 6,666 | 122 | 6,668 | 10,588 |
| Total revenues | 56,966 | 21,272 | 97,173 | 92,764 |
| Operating expenses: | | | | |
| Direct cost of services | 12,841 | 5,213 | 25,084 | 20,530 |
| Cost of goods sold | 2,391 | — | 2,393 | 3,071 |
| Selling, general and administrative expenses | 22,727 | 12,782 | 48,844 | 45,755 |
| Restructuring costs | 3,585 | — | 3,585 | — |
| Total operating expenses | 41,544 | 17,995 | 79,906 | 69,356 |
| Operating income | 15,422 | 3,277 | 17,267 | 23,408 |
| Other income (expense): | | | | |
| Interest income | 26 | 5 | 32 | 10 |
| Interest expense | (991) | (64) | (1,398) | (735) |
| Income before income taxes | 14,457 | 3,218 | 15,901 | 22,683 |
| Provision for income taxes | (6,083) | (600) | (6,184) | (8,060) |
| Net income | 8,374 | 2,618 | 9,717 | 14,623 |
| Net (loss) income attributable to noncontrolling interests | (565) | 1,155 | 631 | 1,814 |
| Net income attributable to B. Riley Financial, Inc. | $8,939 | $1,463 | $9,086 | $12,809 |
| | | | | |
| Basic income per share | $0.47 | $0.09 | $0.51 | $0.79 |
| Diluted income per share | $0.47 | $0.09 | $0.50 | $0.79 |
| | | | | |
| Cash dividends per share | $0.03 | $0.20 | $0.03 | $0.26 |
| | | | | |
| Weighted average basic shares outstanding | 18,977,072 | 16,243,425 | 17,805,127 | 16,199,931 |
| Weighted average diluted shares outstanding | 19,191,035 | 16,344,649 | 18,009,158 | 16,272,953 |

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

4

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

**Condensed Consolidated Statements of Comprehensive Income**

**(Unaudited)**

**(Dollars in thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $ 8,374 | $ 2,618 | $ 9,717 | $ 14,623 |
| Other comprehensive (loss) income: | | | | |
| Change in cumulative translation adjustment | (23) | (279) | (40) | (287) |
| Other comprehensive loss, net of tax | (23) | (279) | (40) | (287) |
| Total comprehensive income | 8,351 | 2,339 | 9,677 | 14,336 |
| Comprehensive (loss) income attributable to noncontrolling interests | (565) | 1,155 | 631 | 1,814 |
| Comprehensive income attributable to B. Riley Financial, Inc. | $ 8,916 | $ 1,184 | $ 9,046 | $ 12,522 |

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

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

**Condensed Consolidated Statements of Equity**

**(Unaudited)**

**(Dollars in thousands)**

| | Preferred Stock | | Common Stock | | Additional Paid-in | Retained Earnings | Accumulated Other Comprehensive | Noncontrolling | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | (Deficit) | Loss | Interests | Equity |
| Balance, January 1, 2015 | — | $ — | 15,968,607 | $ 2 | $ 110,598 | $ (12,891) | $ (648) | $ 18 | $ 97,079 |
| Issuance of common stock for acquisition of MK Capital, LLC and contingent 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 |
| Balance, January 1, 2016 | — | $ — | 16,448,119 | $ 2 | $ 116,799 | $ (6,305) | $ (1,058) | $ (118) | $ 109,320 |
| Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2016 | | | 166,667 | — | | | | | - |
| | | | 7,306 | — | | | | | - |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Vesting of restricted stock | | | | | | | | | |
| Offering of common stock, net of offering expenses | | | 2,420,980 | — | 22,759 | | | | 22,759 |
| Share based payments | | | | | 1,831 | | | | 1,831 |
| Dividends paid | | | | | | (571) | | | (571) |
| Net income for the nine months ended September 30, 2016 | | | | | | 9,086 | | 1,209 | 10,295 |
| Foreign currency translation adjustment | | | | | | | (40) | | (40) |
| Balance, September 30, 2016 | — | $ — | 19,043,072 | $ 2 | $ 141,389 | $ 2,210 | $ (1,098) | $ 1,091 | $ 143,594 |

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

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

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

**(Dollars in thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | $9,717 | $14,623 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,381 | 634 |
| Bad debt expense (recovery) | (178) | 366 |
| Loss on disposal of fixed assets | – | 7 |
| Share based compensation | 1,831 | 1,192 |
| Effect of foreign currency on operations | 640 | (363) |
| Non-cash interest | 147 | 118 |
| Deferred income taxes | 1,839 | 5,451 |
| Income allocated to mandatorily redeemable noncontrolling interests and redeemable noncontrolling interests | 1,450 | 1,796 |
| Change in operating assets and liabilities: | | |
| Accounts receivable and advances against customer contracts | (1,871) | 13,177 |
| Securities owned | 16,515 | 407 |
| Goods held for sale or auction | (8,447) | 52 |
| Prepaid expenses and other assets | 1,410 | 9 |
| Accounts payable and accrued expenses | 3,175 | 5,371 |
| Due from (due to) related parties | (488) | (3,916) |
| Securities sold, not yet purchased | (343) | 5,735 |
| Auction and liquidation proceeds payable | (672) | (665) |
| Deferred revenues | 963 | – |
| Other liabilities | (143) | – |
| Net cash provided by operating activities | 27,926 | 43,994 |
| Cash flows from investing activities: | | |
| Acquisition of MK Capital, net of cash acquired $45 | – | (2,451) |
| Acquisition of United Online, net of cash acquired $125,542 | (33,430) | – |
| Purchases of property and equipment | (297) | (196) |
| Proceeds from sale of property and equipment | 15 | 4 |
| (Increase) decrease in restricted cash | (78,161) | 7,533 |
| Net cash (used in) provided by investing activities | (111,873) | 4,890 |
| Cash flows from financing activities: | | |
| Repayment of asset based credit facility | (56,255) | (18,506) |
| Proceeds from borrowings under asset based credit facility | 56,255 | |

| | | |
|---|---|---|
| Proceeds from (repayment of) revolving line of credit | (272) | 14 |
| Proceeds from note payable - related party | – | 4,500 |
| Repayment of note payable - related party | – | (4,500) |
| Borrowings from participating note payable | 61,400 | – |
| Payment of contingent consideration | (1,250) | – |
| Proceeds from issuance of common stock | 22,999 | – |
| Offerring costs from issuance of common stock | (240) | – |
| Dividends paid | (571) | (4,241) |
| Payment of employment taxes on vesting of restricted stock | – | (24) |
| Distribution to noncontrolling interests | (1,680) | (1,797) |
| Net cash provided by (used in) financing activities | 80,386 | (24,554) |
| (Decrease) increase in cash and cash equivalents | (3,561) | 24,330 |
| Effect of foreign currency on cash | 23 | (8) |
| Net (decrease) increase in cash and cash equivalents | (3,538) | 24,322 |
| Cash and cash equivalents, beginning of period | 30,012 | 21,600 |
| Cash and cash equivalents, end of period | $26,474 | $45,922 |
| Supplemental disclosures: | | |
| Interest paid | $505 | $303 |
| Taxes paid | $409 | $976 |

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

7

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

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

***Public Offering of Common Stock***

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

**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. On July 1, 2016 B. Riley Financial, Inc. acquired UOL which is included in the consolidated financial statements for periods after July 1, 2016. The condensed consolidated financial statements also include the accounts of Great American Global Partners, LLC which is controlled by the Company as a result of its ownership of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations. The condensed consolidated financial statements also include the accounts of GA Retail Investments, L.P. which is controlled by the Company as a result of its ownership of a 50% partnership interest, appointment of executive officers and significant influence over the operations, and guarantee of certain amounts under the promissory note. 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, 2015, filed with the Securities and Exchange Commission on March 28, 2016. The results of operations for the nine months ended September 30, 2016 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 condensed 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 condensed consolidated financial statements and reported amounts of revenue and expense during the reporting period. Estimates are used when accounting for certain items such as valuation of securities, reserves for accounts receivable and slow moving goods held for sale or auction, the carrying value of intangible assets and goodwill, the fair value of mandatorily redeemable noncontrolling interests, fair value of share based arrangements, fair value of contingent consideration in business combination’s and accounting for income tax valuation allowances. Estimates are based on historical experience, where applicable, and assumptions that management believes are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

***(c) Revenue Recognition***

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

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

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

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

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

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; and (v) 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 $1,607 and $1,921 for the three months ended September 30, 2016 and 2015, respectively, and $6,450 and $5,910 for the nine months ended September 30, 2016 and 2015, 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.

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 $673 and $734 for the three months ended September 30, 2016 and 2015, respectively, and $2,059 and $2,156 for the nine months ended September 30, 2016 and 2015, respectively.

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

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

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

***(d) Direct Cost of Services***

Direct cost of services relate to service and fee revenues in the Valuation and Appraisal, Auction and Liquidation and Communications segments. Direct cost of services for the Valuation and Appraisal segment 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 in the Auction and Liquidation segment include the cost of consultants and other direct expenses related to auction and liquidation contracts pursuant to commission and fee based arrangements and amounts for profit participation under collaborative arrangements in which the Company is a majority participant. Direct cost of services in the Communications segment include cost of telecommunications and data center costs, personnel and overhead-related costs associated with operating the Company's networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billing and processing of customer credit cards and associated bank fees. Direct cost of services does not include an allocation of the Company's overhead costs.

***(e) Concentration of Risk***

Revenue from one liquidation engagement represented 24.4% of total revenues during the three months ended September 30, 2016 and 15.6% of total revenues during the nine months ended September 30, 2016. 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.

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

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

### *(f) Share-Based Compensation*

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

### *(g) Income Taxes*

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

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

***(h) 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.

***(i) Restricted Cash***

As of September 30, 2016, restricted cash included $76,343 of cash collateral related to a retail liquidation engagement in Australia, $1,119 of cash collateral for letters of credit, $292 of cash collateral for foreign exchange contracts and $533 cash segregated in a special bank accounts for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication suppliers. As of December 31, 2015, restricted cash included $51 of cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary.

***(j) Accounts Receivable***

Accounts receivable represents amounts due from the Company's auction and liquidation, valuation and appraisal, capital markets customers and communication customers primarily from revenues earned from advertising. 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, 2016 and 2015 are included in Note 3.

### *(k) 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.

### *(l) 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. At September 30, 2016, goods held for sale or auction includes retail inventory of $8,600 related to a retail liquidation engagement in the Netherlands, mobile broadband service devices and modems of $509 and aircraft parts and other with a carrying value of $36 (which includes a lower of cost or market adjustment of $1,331). At December 31, 2015, goods held for sale or auction includes aircraft parts and other with a carrying value of $37 (which includes a lower of cost or market adjustment of $1,330).

### *(m) 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 $531 and $102 for the three months ended September 30, 2016 and 2015, respectively, and $706 and $315 for the nine months ended September 30, 2016 and 2015, respectively.

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

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

As of September 30, 2016 and December 31, 2015, the Company’s securities owned and securities sold not yet purchased at fair value consisted of the following securities:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Securities owned | | |
| Common stocks | $ 1,352 | $ 17,586 |
| Corporate bonds | 2,302 | 941 |
| Partnership interests | 5,374 | 7,016 |
| | $ 9,028 | $ 25,543 |
| | | |
| Securities sold not yet purchased | | |
| Corporate bonds | $ 370 | $ 713 |

***(o) Fair Value Measurements***

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company's securities owned and securities sold and not yet purchased are comprised of common stocks, corporate bonds and investments in partnerships. Investments in common stocks are based on quoted prices in active markets which are included in Level 1 of the fair value hierarchy. The Company also holds nonpublic common stocks and warrants for which there is little or no public market and fair value is determined by management on a consistent basis. For investments where little or no public market exists, management's determination of fair value is based on the best available information which may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration various factors including earnings history, financial condition, recent sales prices of the issuer's securities and liquidity risks. These investments are included in Level 3 of the fair value hierarchy. Investments in partnership interests include investments in private equity partnerships that primarily invest in equity securities, bonds, and direct lending funds. The Company's partnership interests are valued based on the Company's proportionate share of the net assets of the partnership which is derived from the most recent statements received from the general partner which are included in Level 2 of the fair value hierarchy.

The fair value of mandatorily redeemable noncontrolling interests is determined based on the issuance of similar interests for cash, references to industry comparables, and relied, in part, on information obtained from appraisal reports and internal valuation models.

The following tables present information on the financial assets and liabilities measured and recorded at fair value on a recurring basis as of September 30, 2016 and December 31, 2015.

| | Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2016, Using | | | |
|---|---|---|---|---|
| | Fair Value at September 30, 2016 | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets: | | | | |
| Securities owned | | | | |
| Common stocks | $ 1,352 | $ 1,077 | $ - | $ 275 |
| Corporate bonds | 2,302 | - | 2,142 | 160 |
| Partnership interests | 5,374 | - | 2,973 | 2,401 |
| Total assets measured at fair value | $ 9,028 | $ 1,077 | $ 5,115 | $ 2,836 |
| | | | | |
| Liabilities: | | | | |
| Securities sold not yet purchased | | | | |
| Corporate bonds | $ 370 | $ - | $ 370 | $ - |
| | 2,234 | - | - | 2,234 |

| | | | | |
|---|---|---|---|---|
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | | | | |
| Contingent consideration | 1,219 | - | - | 1,219 |
| Total liabilities measured at fair value | $ 3,823 | $ - | $ 370 | $ 3,453 |

| | Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015, Using | | | |
|---|---|---|---|---|
| | Fair Value at December 31, 2015 | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets: | | | | |
| Securities owned | | | | |
| Common stocks | $ 17,586 | $ 17,296 | $ - | $ 290 |
| Corporate bonds | 941 | - | 941 | - |
| Partnership interests | 7,016 | - | 5,250 | 1,766 |
| Total assets measured at fair value | $ 25,543 | $ 17,296 | $ 6,191 | $ 2,056 |
| Liabilities: | | | | |
| Securities sold not yet purchased | | | | |
| Corporate bonds | $ 713 | $ - | $ 713 | $ - |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | $ 2,330 | $ - | $ - | $ 2,330 |
| Contingent consideration | $ 2,391 | $ - | $ - | $ 2,391 |
| Total liabilities measured at fair value | $ 5,434 | $ - | $ 713 | $ 4,721 |

The changes in Level 3 fair value hierarchy during the nine months ended September 30, 2016 and 2015 is as follows:

| | Level 3 Balance at Beginning of Period | Level 3 Changes During the Year Fair Value Adjustments | Relating to Undistributed Earnings | Purchases, Sales and Settlements | Transfer in and/or out of Level 3 | Level 3 Balance at End of Period |
|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2016 | | | | | | |
| Common stocks | $ 290 | $ (15 ) | $ - | $ - | $ - | $ 275 |
| Corporate bonds | - | (409 ) | - | 569 | - | 160 |
| Partnership interests | 1,766 | 123 | 418 | 94 | - | 2,401 |
| Mandatorily redeemable noncontrolling interests issued after November 5, 2003 | 2,330 | - | (96 ) | - | - | 2,234 |
| Contingent consideration | 2,391 | 78 | - | (1,250 ) | - | 1,219 |
| 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 | - | 2,347 | - | - | - | 2,347 |

The amount reported in the table above for the nine months ended September 30, 2016 and 2015 includes the amount of undistributed earnings attributable to the noncontrolling interests that is distributed on a quarterly basis. The fair value adjustment for contingent consideration in the table above during the nine months ended September 30, 2016 includes an adjustment for imputed interest of $78. The fair value adjustment for contingent consideration in the table above of $2,347 during the nine months ended September 30, 2015 includes the initial value of contingent consideration of $2,229 and an adjustment for imputed interest of $118.

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

The carrying amounts of the asset based credit facility 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.

***(p) Contingent Consideration***

In connection with the acquisition of MK Capital on February 2, 2015, the purchase agreement required the payment of contingent consideration to the former members of MK Capital in the form of future cash payments of $1,250 and issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and a final cash payment of $1,250 and issuance of 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash consideration has been classified as a liability in the condensed balance sheets in accordance with ASC 805, "Business Combination" ("ASC 805"). The fair value of the contingent cash consideration has been discounted at 8.0%. The balance of the contingent consideration liability was $1,219 (discount of $31) at September 30, 2016. The balance of the contingent consideration liability was $2,391 (discount of $109) at December 31, 2015 and has been recorded as contingent consideration liability – current portion in the amount of $1,241 and contingent consideration liability, net of current portion in the amount of $1,150 in the condensed consolidated balance sheet. Imputed interest expense totaled $23 and $45 for the three months ended September 30, 2016 and 2015, respectively, and $78 and $118 for the nine months ended September 30, 2016 and 2015, respectively. The fair value of the contingent stock consideration has been classified as equity in accordance with ASC 805. 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. MK Capital achieved the minimum amount of revenues for the first anniversary period and the contingent cash consideration in the amount of $1,250 and contingent stock consideration consisting of 166,667 shares of common stock for such first anniversary period was paid and issued on February 2, 2016.

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

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain auction and liquidation engagements with operations outside the United States. During the nine months ended September 30, 2016, the Company's use of derivatives consisted of the purchase of forward exchange contracts (a) in the amount of $10,200 Canadian dollars that was settled at various periods prior to August 31, 2016, (b) in the amount of $20,000 Australian dollars to be settled on December 30, 2016, and (c) 5,600 Euro's to be settled on December 30, 2016.  During the nine months ended September 30, 2015, the Company's use of derivatives consisted of the purchase of forward exchange contracts totaling $16,870 Canadian dollars that were settled prior to November 30, 2015.  The net loss from the foreign exchange contracts was $76 and $115 during the three and nine months ended September 30, 2016, respectively, and the net gain from the foreign exchange contracts was $68 and $28 during the three and nine months ended September 30, 2015, respectively. These amounts are reported as a component of selling, general and administrative expenses in the condensed consolidated financial statements.

The Company transacts business in various foreign currencies. In countries where the functional currency of the underlying operations has been determined to be the local country's currency, revenues and expenses of operations outside the United States are translated into United States dollars using average exchange rates while assets and liabilities of operations outside the United States are translated into United States dollars using period-end exchange rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. Foreign currency transaction losses were $511 and $196 during the three months ended September 30, 2016 and 2015, respectively and $531 and $252 during the nine months ended September 30, 2016 and 2015, respectively. These amounts are included in selling, general and administrative expenses in our condensed consolidated statements of operations.

***(r) Recent Accounting Pronouncements***

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which amends revenue recognition requirements for multiple deliverable revenue arrangements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The amendments should be applied retrospectively. In July 2015, the FASB approved a one-year deferral of the effective date with early adoption permitted. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

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

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update involve simplification in several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update require both prospective and retrospective application with earlier application permitted as of the beginning of an interim or annual reporting period. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

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

**NOTE 3— AQUISITIONS AND RESTRUCTURING CHARGE**

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

On May 4, 2016, the Company entered into a definitive agreement and plan of merger to acquire all of the outstanding common stock of UOL, a provider of consumer internet access and related subscription services, for $11.00 per share, or approximately $169,354 in aggregate merger consideration. The consideration represented approximately $43,811 in cash consideration from the Company after taking into account UOL's cash balance at closing of which $10,381 remains payable at September 30, 2016, which is included in acquisition consideration payable in the condensed consolidated balance sheet, pending the outcome of the legal matter more fully described in Note 10. The shareholders of UOL approved the acquisition on June 29, 2016 and customary closing conditions were satisfied and the acquisition was completed on July 1, 2016. The acquisition of UOL allows the Company to benefit from the expected cash flows of UOL due in part to planned synergies from the elimination of duplicate overhead functions with the Company. The acquisition of UOL is accounted for using the purchase method of accounting.

The assets and liabilities of UOL, both tangible and intangible, were recorded at their estimated fair values as of the July 1, 2016 acquisition date for UOL. The application of the purchase method of accounting resulted in goodwill of $18,107 which represents expected overhead synergies and acquired workforce. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of UOL were charged against earnings in the amount of $35 and $957 and included in selling, general and administrative expenses in the condensed consolidated statement of operations for the three and nine month periods ended September 30, 2016. The preliminary purchase accounting for the acquisition has been accounted for as a stock purchase with all of the recognized goodwill is expected to be non-deductible for tax purposes.

The preliminary purchase price allocation was as follows:

| | |
|---|---|
| Total consideration | $169,354 |
| | |
| Tangible assets acquired and assumed: | |
| Cash and cash equivalents | $125,542 |
| Restricted cash | 482 |
| Accounts receivables | 3,850 |
| Inventory | 624 |
| Property and equipment | 5,536 |
| Prepaid expenses and other assets | 6,437 |
| Accounts payable | (4,874 ) |
| Accrued expenses and other liabilities | (10,344 ) |

| | |
|---|---|
| Deferred revenue | (2,900 ) |
| Deferred tax liabilities | (5,742 ) |
| Other liabilities | (5,196 ) |
| Customer relationships | 33,300 |
| Advertising relationships | 100 |
| Trade name and trademarks | 1,100 |
| Internally developed software | 3,333 |
| Goodwill | 18,106 |
| | $169,354 |

16

***Pro Forma Financial Information***

The unaudited financial information in the table below summarizes the combined results of operations of the Company and UOL, as though it had occurred as of January 1, 2016 and January 1, 2015. The pro forma financial information presented includes the effects of adjustments related to the amortization charges from the acquired intangible assets and the elimination of certain activities excluded from the transaction. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

| | Pro Forma Unaudited Three Months Ended September 30, | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $56,966 | $42,738 | $133,627 | $161,702 |
| Net income attributable to B. Riley Financial, Inc. | $4,398 | $1,389 | $341 | $9,635 |
| | | | | |
| Proforma basic earnings per share | $0.23 | $0.09 | $0.02 | $0.59 |
| Proforma diluted earnings per share | $0.23 | $0.08 | $0.02 | $0.59 |
| | | | | |
| Weighted average basic shares outstanding | 18,977,072 | 16,243,425 | 17,805,127 | 16,199,931 |
| Weighted average diluted shares outstanding | 19,191,035 | 16,344,649 | 18,009,158 | 16,272,953 |

***Restructuring Charge***

During the third quarter of 2016, after completing the acquisition of UOL, the Company initiated cost savings measures which included a reduction in force for certain corporate and administrative employees of UOL. The reduction in force resulted in a restructuring charge of $3,187 for employee termination costs in the Communications segment. In the third quarter of 2016, the Company also entered into a sublease and consolidated one of the offices of the Company with the former corporate offices of UOL. The sublease resulted in a restructuring charge of $398 related to office closure costs. The related accruals are included in accrued expenses and other liabilities in the condensed consolidated balance sheet. The following table summarizes the restructuring charges during 2016:

| | Communications | Corporate and |
|---|---|---|

| | Segment | Other | Total |
|---|---|---|---|
| Expensed during 2016: | | | |
| Employee termination costs | $ 3,187 | $ - | $3,187 |
| Office closure | - | 398 | 398 |
| Total expended during the 2016 | 3,187 | 398 | 3,585 |
| Paid during 2016 | 2,946 | - | 2,946 |
| Accrued balance at September 30, 2016 | $ 241 | $ 398 | $639 |

**NOTE 4— ACCOUNTS RECEIVABLE**

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Accounts receivable | $ 12,360 | $ 8,417 |
| Investment banking fees, commissions and other receivables | 742 | 709 |
| Unbilled receivables | 2,188 | 435 |
| Total accounts receivable | 15,290 | 9,561 |
| Allowance for doubtful accounts | (178) | (89) |
| Accounts receivable, net | $ 15,112 | $ 9,472 |

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

| | Three Months Ended September 30, | | Nime Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Balance, beginning of period | $ 86 | $ 973 | $ 89 | $ 728 |
| Add: Additions to reserve | 428 | 111 | 488 | 366 |
| Less: Write-offs | (15 ) | - | (49 ) | - |
| Less: Recoveries | (321 ) | (289 ) | (350 ) | (299 ) |
| Balance, end of period | $ 178 | $ 795 | $ 178 | $ 795 |

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— GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill of $52,634 at September 30, 2016 is comprised of $28,840 in the Capital Markets segment, $1,975 in the Auction and Liquidation segment, $3,713 in the Valuation and Appraisal segment and $18,106 in the Communications segment. Goodwill of $34,528 at December 31, 2015 is comprised of $28,840 in the Capital Markets segment, $1,975 in the Auction and Liquidation segment and $3,713 in the Valuation and Appraisal segment.

Intangible assets consisted of the following:

| | | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|---|
| | Useful Life | Gross Carrying Value | Accumulated Amortization | Intangibles Net | Gross Carrying Value | Accumulated Amortization | Intangibles Net |
| Amortizable assets: | | | | | | | |
| Customer relationships | 4 to 13 Years | $36,900 | $ 1,948 | $ 34,952 | $3,600 | $ 572 | $ 3,028 |
| Advertising relationships | 8 Years | 100 | 3 | 97 | - | - | - |
| Internally developed software | 1 to 4 Years | 3,333 | 275 | 3,058 | - | - | - |
| Tradenames | 8 Years | 1,100 | 34 | 1,066 | - | - | - |
| | | 41,433 | 2,260 | 39,173 | 3,600 | 572 | 3,028 |
| Non-amortizable assets: | | | | | | | |
| Tradenames | | 1,740 | - | 1,740 | 1,740 | - | 1,740 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total intangible assets | $43,173 | $ 2,260 | $ 40,913 | $5,340 | $ 572 | $ 4,768 |

Amortization expense was $1,465 and $111 for the three months ended September 30, 2016 and 2015, respectively, and $1,688 and $319 for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, estimated future amortization expense is $1,465, $5,632, $5,403, $5,299 and $4,917 for the years ended December 31, 2016 (remaining three months), 2017, 2018, 2019 and 2020, respectively. The estimated future amortization expense after December 31, 2020 is $16,457.

**NOTE 6— CREDIT FACILITIES**

Credit facilities consist of the following arrangements:

***(a)$100,000 Asset Based Credit Facility***

At September 30, 2016, the Company has a $100,000 asset based credit facility pursuant to a Second Amended and Restated Credit Agreement as amended from time to time (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo Bank”). The credit facility currently expires on July 15, 2018. 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. On October 5, 2016 the Company amended the Credit Agreement to add the Company’s Canadian subsidiary in order to facilitate borrowings to fund retail liquidation transactions in Canada. Cash advances and the issuance of letters of credit under the credit facility are made at the lender’s discretion. The letters of credit issued under this facility are furnished by the lender to third parties for the principal purpose of securing minimum guarantees under liquidation services contracts more fully described in Note 2(c). All outstanding loans, letters of credit, and interest are due on the expiration date which is generally within 180 days of funding. The credit facility is secured by the proceeds received for services rendered in connection with liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract. The interest rate for each revolving credit advance under the Credit Agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. The credit facility also provides for success fees in the amount of 5% to 20% of the net profits, if any, earned on the liquidation engagements funded under the Credit Agreement as set forth therein. Interest expense totaled $813 (including success fees of $732 and amortization of deferred loan fees of $23) for the three months ended September 30, 2016 and $1,087 (including success fees of $732 and amortization of deferred loan fees of $69) for the nine months ended September 30, 2016. Interest expense totaled $22 (comprised of amortization of deferred loan fees) for the three months ended September 30, 2015 and $343 (including success fees of $119 and amortization of deferred loan fees of $69) for the nine months ended September 30, 2015. At September 30, 2016, there was $300 of standby letters of credit issued and outstanding under the credit facility. There were no borrowings outstanding under this credit facility at September 30, 2016 and December 31, 2015.

18

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, Great American Group Advisory & Valuation Services, LLC, a majority owned subsidiary of the Company ("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 was 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 was the prime rate plus 2% (6.5% at December 31, 2015), payable monthly in arrears. The Line of Credit was amended effective February 3, 2012 and the maximum borrowings allowed was increased from $2,000 to $3,000. On December 7, 2015, the Company notified BFI to terminate the Line of Credit, all outstanding amounts under the Line of Credit were repaid on January 27, 2016 and the Line of Credit was terminated upon maturity on February 3, 2016. At December 31, 2015, there was $3,922 of accounts receivable as collateral for the Line of Credit and the total borrowings outstanding was $272 and $2,738 was available and unused. Interest expense totaled $77 for the nine months ended September 30, 2016. Interest expense totaled $9 and $75 for the three and nine months ended September 30, 2015, respectively.

**NOTE 7— NOTES PAYABLE**

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 $181 and $207 for the three and nine months ended September 30, 2015, respectively. 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.

19

In August 2016, the Company formed GA Retail Investments, L.P., a Delaware limited partnership, (the "Partnership") which required the Company to contribute $15,350. The Partnership borrowed $80,000 Australian dollars from a third party investor in connection with its' formation and the $80,000 Australian dollars exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement we entered into to liquidate the Masters Home Improvement stores. The $80,000 Australian participating note payable is non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and is subject to repayment upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. Although the terms of the participating note payable include the issuance of an 50% equity interest in the Partnership, sharing in all profits and losses of the Partnership, and no repayment until certain events occur, in accordance with ASC 480 Distinguishing Liabilities From Equity, this financial instrument has been classified as a participating note payable in the current liabilities of the liability section of the condensed consolidated financial statements. The balance of the participating note payable at September 30, 2016 is $60,822.

**NOTE 8— INCOME TAXES**

The Company's effective income tax rate was 38.9% and 35.5% for the nine months ended September 30, 2016 and 2015, respectively. The effective income tax rate for the each of the nine month periods ended September 30, 2016 and 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 such periods.

As of September 30, 2016, the Company had federal net operating loss carry forwards of $12,023, state net operating loss carry forwards of $13,886, and foreign tax credit carry forwards of $1,121. The Company's federal net operating loss carry forwards will expire in the tax year ending December 31, 2030, the state net operating loss carry forwards will expire in 2032, and the foreign tax credit carry forwards will expire in 2022. As a result of the acquisition of UOL, the Company also has an additional $14,700 of estimated federal net operating loss carryforwards that are available to offset future federal taxable income. The UOL net operating loss carryforwards will expire in 2019.

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 carry forwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carry forward period, and other circumstances. As a result of the common stock offering by the Company that was completed on September 5, 2014, the Company had a more than 50% ownership shift in accordance with Internal Revenue Code Section 382. Accordingly, the Company is limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company's actual taxable income. As of September 30, 2016, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods before the loss carry forwards 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 is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar years ended December 31, 2012 to 2015. The Company and its subsidiaries' state tax returns are also open to audit under similar statutes of limitations for the same tax years.

**NOTE 9— EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period. Basic common shares outstanding exclude 66,000 common shares at September 30, 2016 and 2015 that are held in escrow and subject to forfeiture as a result of the failure to achieve certain performance targets specified in connection with the transaction with Alternative Asset Management Acquisition Corp. in 2009 (the "Acquisition"). The 66,000 common shares issued to the former members of Great American Group, LLC are subject to forfeiture upon the final settlement of claims for goods held for sale in connection with the Acquisition. Dilutive common shares outstanding includes contingently issuable shares that are currently in escrow and subject to release if the conditions for the final settlement of claims for goods held for sale in connection with the Acquisition was satisfied at the end of the respective periods.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income attributable to B. Riley Financial, Inc. | $8,939 | $1,463 | $9,086 | $12,809 |
| Weighted average shares outstanding: | | | | |
| Basic | 18,977,072 | 16,243,425 | 17,805,127 | 16,199,931 |
| Effect of dilutive potential common shares: | | | | |
| Restricted stock units and non-vested shares | 169,311 | 56,349 | 159,376 | 28,147 |
| Contingently issuable shares | 44,652 | 44,875 | 44,655 | 44,875 |
| Diluted | 19,191,035 | 16,344,649 | 18,009,158 | 16,272,953 |
| Basic income per share | $0.47 | $0.09 | $0.51 | $0.79 |
| Diluted income per share | $0.47 | $0.09 | $0.50 | $0.79 |

Securities that could potentially dilute earnings per share in the future that were excluded from the computation of diluted net income per share related to restricted stock units were 650,019 shares and 448,793 shares for the three months ended September 30, 2016 and 2015, respectively, and 659,954 shares and 475,995 shares for the nine months ended September 30, 2016 and 2015, respectively, because the effect would have been antidilutive.

**NOTE 10— COMMITMENTS AND CONTINGENCIES**

***Legal Matters***

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

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

On July 5, 2016, Quadre Investments LP ("Quadre") filed a petition with the Delaware Court of Chancery (the "Court") seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by the Company. Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre is entitled to petition the Court to receive fair value as determined by the Court. The Company does not believe that the fair value of each share exceeds $11.00 per share, the acquisition consideration paid to UOL stockholders pursuant to the agreement to acquire UOL, and the Company intends to contest the petition. As of September 30, 2016, the Company has recorded approximately $10,381 of acquisition consideration payable and approximately $154 of accrued interest payable in connection with the Quadre petition.

**NOTE 11— SHARE BASED PAYMENTS**

During the nine months ended September 30, 2016, the Company granted equity incentive rewards representing 518,735 shares of common stock with a total fair value of $4,949 to certain employees and directors of the Company. Such equity incentive awards consisted of restricted stock units subject to vesting representing 518,735 shares of common stock. During the year ended December 31, 2015, the Company granted equity incentive rewards representing 527,372 shares of common stock with a total fair value of $5,255 to certain employees and directors of the Company. Such equity incentive awards consisted of restricted stock units subject to vesting representing 521,772 shares of common stock and stock bonus awards of 5,600 fully vested shares of common stock. The vesting periods for the equity incentive awards generally range from one to three years. Share based compensation expense was $834 and $1,831 for the three and nine months ended September 30, 2016, respectively. Share based compensation expense was $727 and $1,193 for the three and nine months ended September 30, 2015, respectively.

The restricted stock units generally vest over a period of one to three years based on continued service. In determining the fair value of restricted stock units on the grant date, the fair value is adjusted for (a) estimated forfeitures, (b) expected dividends based on historical patterns and the Company's anticipated dividend payments over the expected holding period and (c) the risk-free interest rate based on U.S. Treasuries for a maturity matching the expected holding period. As of September 30, 2016, the expected remaining unrecognized share based compensation expense of $6,223 will be expensed over a weighted average period of 1.8 years.

A summary of equity incentive award activity for the periods indicated was as follows:

| | Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested at December 31, 2015 | 325,905 | $ 9.97 |
| Granted | 518,735 | 9.54 |
| Vested | (7,306 ) | 9.59 |
| Forfeited | (18,004 ) | 9.92 |
| Nonvested at September 30, 2016 | 819,330 | $ 9.70 |

**NOTE 12— NET CAPITAL REQUIREMENTS**

B. Riley & Co., LLC ("BRC"), a subsidiary of the Company, is a registered broker-dealer and, accordingly, is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires BRC 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, 2016, BRC had net capital of $7,644 (an excess of $7,286). BRC's net capital ratio for September 30, 2016 was 0.48 to 1.

**NOTE 13— RELATED PARTY TRANSACTIONS**

On March 10, 2015, the Company borrowed $4,500 from RIP in accordance with the RIP Note. The borrowings were for short-term working capital needs and capital for other retail liquidation engagements. 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) and included a Success Fee as more fully described in Note 7. 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. Interest expense on the RIP Note totaled $181 and $207 for the three and nine months ended September 30, 2015, respectively. The RIP Note was repaid on May 4, 2015.

At September 30, 2016 and December 31, 2015, amounts due from related party of $460 and $409, respectively, represented amounts due from GACP I, L.P, of which Great American Capital Partners, LLC, a wholly owned subsidiary of the Company, is the general partner, for management fees and other operating expenses. At September 30, 2016, amounts due from related party also included $271 due from CA Global Partners, LLC ("CA Global"). At December 31, 2015, amounts due to related party of $166 represent amounts due to CA Global. CA Global is one of the members of Great American Global Partners, LLC.

In connection with the offering of $28,750 of Senior Notes as more fully described in Note 15, certain members of management and the Board of Directors of the Company purchased $2,731 or 9.5% of the Senior Notes offered by the Company.

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

The Company's business in 2015 was previously classified by management into the Capital Markets segment, Auction and Liquidation segment and Valuation and Appraisal segment. In 2016, with the acquisition of UOL, the Company's business is classified into the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment and Communications 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, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Capital markets reportable segment: | | | | |
| Revenues - Services and fees | 10,063 | $ 7,478 | $ 22,799 | $ 30,343 |
| Selling, general, and administrative expenses | (8,692) | (7,310) | (22,535) | (23,234) |
| Depreciation and amortization | (362) | (134) | (406) | (384) |
| Segment income (loss) | 1,009 | 34 | (142) | 6,725 |
| Auction and Liquidation reportable segment: | | | | |
| Revenues - Services and fees | 17,058 | 5,727 | 29,358 | 28,861 |
| Revenues - Sale of goods | 6,503 | 122 | 6,505 | 10,588 |
| Total revenues | 23,561 | 5,849 | 35,863 | 39,449 |
| Direct cost of services | (4,365) | (1,722) | (9,870) | (10,642) |
| Cost of goods sold | (2,223) | - | (2,225) | (3,071) |
| Selling, general, and administrative expenses | (3,957) | (1,260) | (6,759) | (7,725) |
| Depreciation and amortization | (25) | (45) | (103) | (147) |
| Segment income | 12,991 | 2,822 | 16,906 | 17,864 |
| Valuation and Appraisal reportable segment: | | | | |