

B. Riley Financial, Inc.  
Form 10-Q  
August 08, 2017

**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 June 30, 2017**

Or

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

**For the transition period from            to  
Commission File Number 000-54010**

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

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**27-0223495**  
(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)

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, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer      Accelerated filer  
Non-accelerated filer      Smaller reporting company  
Emerging growth company

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

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

As of August 4, 2017, there were 26,415,753 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 June 30, 2017**

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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)**

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Assets		
Cash and cash equivalents	\$ 104,670	\$ 112,105
Restricted cash	5,632	3,294
Due from clearing brokers	6,297	—
Securities and other investments owned, at fair value	78,204	16,579
Securities borrowed	909,331	—
Accounts receivable, net	19,319	18,989
Due from related parties	6,765	3,009
Advances against customer contracts	40,991	427
Prepaid expenses and other assets	10,986	5,742
Property and equipment, net	13,450	5,785
Goodwill	67,335	48,903
Other intangible assets, net	45,033	41,166
Deferred income taxes	33,407	8,619
Total assets	\$ 1,341,420	\$ 264,618
Liabilities and Equity		
Liabilities		
Accounts payable	\$ 3,184	\$ 2,703
Accrued expenses and other liabilities	62,573	53,168
Deferred revenue	3,731	4,130
Due to related parties and partners	393	10,037
Securities sold not yet purchased	3,526	846
Securities loaned	911,991	—
Mandatorily redeemable noncontrolling interests	9,641	4,019
Acquisition consideration payable	—	10,381

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Asset based credit facility	20,237	—
Senior notes payable	86,065	27,700
Contingent consideration	—	1,242
Total liabilities	1,101,341	114,226
Commitments and contingencies		
B. Riley Financial, Inc. stockholders' equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 40,000,000 shares authorized; 24,377,806 and 19,140,342 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	220,628	141,170
Retained earnings	19,054	9,887
Accumulated other comprehensive loss	(666 )	(1,712 )
Total B. Riley Financial, Inc. stockholders' equity	239,018	149,347
Noncontrolling interests	1,061	1,045
Total equity	240,079	150,392
Total liabilities and equity	\$1,341,420	\$264,618

*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		Six Months Ended	
	June 30,	2016	June 30,	2016
	2017		2017	
Revenues:				
Services and fees	\$64,395	\$20,261	\$117,213	\$40,205
Interest income - Securities lending	2,218	—	2,218	—
Sale of goods	63	—	142	2
Total revenues	66,676	20,261	119,573	40,207
Operating expenses:				
Direct cost of services	18,485	5,560	36,086	12,243
Cost of goods sold	130	—	189	2
Selling, general and administrative expenses	37,722	14,521	61,874	26,117
Restructuring charge	6,214	—	6,588	—
Interest expense - Securities lending	1,565	—	1,565	—
Total operating expenses	64,116	20,081	106,302	38,362
Operating income	2,560	180	13,271	1,845
Other income (expense):				
Interest income	150	3	282	6
Interest expense	(1,894)	(275)	(2,685)	(407)
Income (loss) before income taxes	816	(92)	10,868	1,444
Benefit (provision) for income taxes	2,547	65	6,396	(101)
Net income (loss)	3,363	(27)	17,264	1,343
Net income (loss) attributable to noncontrolling interests	83	74	(37)	1,196
Net income (loss) attributable to B. Riley Financial, Inc.	\$3,280	\$(101)	\$17,301	\$147
Basic income (loss) per share	\$0.15	\$(0.01)	\$0.85	\$0.01
Diluted income (loss) per share	\$0.15	\$(0.01)	\$0.82	\$0.01
Cash dividends per share	\$0.16	\$—	\$0.42	\$—
Weighted average basic shares outstanding	21,216,829	17,935,254	20,311,231	17,212,716
Weighted average diluted shares outstanding	22,119,055	17,935,254	20,984,757	17,547,073

*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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$3,363	\$(27 )	\$17,264	\$1,343
Other comprehensive income (loss):				
Change in cumulative translation adjustment	401	(82 )	1,046	(17 )
Other comprehensive income (loss), net of tax	401	(82 )	1,046	(17 )
Total comprehensive income (loss)	3,764	(109)	18,310	1,326
Comprehensive income (loss) attributable to noncontrolling interests	83	74	(37 )	1,196
Comprehensive income (loss) attributable to B. Riley Financial, Inc.	\$3,681	\$(183)	\$18,347	\$130

*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 Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
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	—	—	—	—	—	—
Vesting of restricted stock	—	—	7,306	—	—	—	—	—	—
Offering of common stock, net of offering expenses	—	—	2,420,980	—	22,759	—	—	—	22,759
Share based payments	—	—	—	—	997	—	—	—	997
Net income for the six months ended June 30, 2016	—	—	—	—	—	147	—	1,196	1,343
Foreign currency translation adjustment	—	—	—	—	—	—	(17)	—	(17)
Balance, June 30, 2016	—	\$ —	19,043,072	\$ 2	\$ 140,555	\$(6,158)	\$(1,075)	\$ 1,078	\$134,402
Balance, January 1, 2017	—	\$ —	19,140,342	\$ 2	\$ 141,170	\$9,887	\$(1,712)	\$ 1,045	\$150,392
Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2017	—	—	166,666	—	1,151	—	—	—	1,151
Issuance of common stock for acquisition of	—	—	158,484	—	1,952	—	—	—	1,952

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Dialectic general partner interests on April 13, 2017																
Issuance of common stock for acquisition of FBR & Co. on June 1, 2017	—	—	4,779,354	—	73,472	—	—	—	73,472							
Vesting of restricted stock, net of shares withheld for employer taxes	—	—	132,960	—	(1,057 )	—	—	—	(1,057 )							
Share based payments	—	—	—	—	3,940	—	—	—	3,940							
Dividends paid	—	—	—	—	—	(8,134 )	—	—	(8,134 )							
Net income for the six months ended June 30, 2017	—	—	—	—	—	17,301	—	16	17,317							
Foreign currency translation adjustment	—	—	—	—	—	—	1,046	—	1,046							
Balance, June 30, 2017	—	\$	—	24,377,806	\$	2	\$	220,628	\$	19,054	\$	(666 )	\$	1,061	\$	240,079

*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)**

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 17,264	\$ 1,343
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,290	399
Provision (recoveries) for doubtful accounts	704	(3 )
Share-based compensation	3,940	997
Recovery of key man life insurance	(6,000 )	—
Non-cash interest and other	166	54
Effect of foreign currency on operations	(855 )	—
Deferred income taxes	(23,636 )	271
Impairment of leaseholds, lease loss accrual and loss on disposal of fixed assets	1,371	—
Income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests	7,268	960
Change in operating assets and liabilities:		
Due from clearing brokers	13,408	—
Securities and other investments owned	(40,975 )	899
Securities borrowed	(48,134 )	—
Accounts receivable and advances against customer contracts	(37,153 )	1,087
Prepaid expenses and other assets	14,988	(7,645 )
Accounts payable, accrued payroll and related expenses, accrued value added tax payable and other accrued expenses	(22,748 )	(5,998 )
Amounts due from related parties and partners	(13,333 )	(1,935 )
Securities sold, not yet purchased	2,675	5,219
Deferred revenue	(425 )	—
Securities loaned	44,365	—
Auction and liquidation proceeds payable	—	14,667
Net cash (used in) provided by operating activities	(82,820 )	10,315
Cash flows from investing activities:		
Cash acquired from acquisition of FBR & Co.	15,738	—
Acquisition of other businesses	(2,052 )	—
Acquisition consideration payable	(10,381 )	—
Purchases of property and equipment	(306 )	(58 )
Proceeds from key man life insurance	6,000	—
Proceeds from sale of property and equipment	6	—

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Proceeds from sale of intangible assets	613	—
Increase in restricted cash	(2,263 )	(12,026)
Net cash provided by (used in) investing activities	7,355	(12,084)
Cash flows from financing activities:		
Repayment of revolving line of credit	—	(272 )
Proceeds from asset based credit facility	65,987	—
Repayment of asset based credit facility	(45,750 )	—
Payment of contingent consideration	(1,250 )	(1,250 )
Proceeds from issuance of senior notes	57,847	—
Proceeds from issuance of common stock	—	22,999
Offering costs from issuance of common stock	—	(240 )
Payment of employment taxes on vesting of restricted stock	(1,057 )	—
Dividends paid	(8,380 )	—
Distribution to noncontrolling interests	(1,646 )	(1,441 )
Net cash provided by financing activities	65,751	19,796
(Decrease) increase in cash and cash equivalents	(9,714 )	18,027
Effect of foreign currency on cash	2,279	84
Net (decrease) increase in cash and cash equivalents	(7,435 )	18,111
Cash and cash equivalents, beginning of year	112,105	30,012
Cash and cash equivalents, end of period	\$104,670	\$48,123
Supplemental disclosures:		
Interest paid	\$2,890	\$252
Taxes paid	\$9,689	\$409

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

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

**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 also include the accounts of (a) Great American Global Partners, LLC which is controlled by the Company as a result of its ownership

of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations, and (b) GA Retail Investments, L.P. which is controlled by the Company as a result of its ownership of a 50% partnership interest, appointment of executive officers and significant influence over the operations. 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 (“GAAP”) 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, 2016, filed with the Securities and Exchange Commission (“SEC”) on March 10, 2017. The results of operations for the six months ended June 30, 2017 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; (ii) revenues from sales and trading activities; and (iii) interest income from securities lending activities.

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

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

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

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

Revenues in the Auction and Liquidation segment are comprised of (i) commissions and fees earned on the sale of goods at auctions and liquidations; (ii) revenues from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation; (iii) revenue from the sale of



goods that are purchased by the Company for sale at auction or liquidation sales events; (iv) fees earned from real estate services and the origination of loans; (v) revenues from financing activities is recorded over the lives of related loans receivable using the interest method; and (vi) revenues from contractual reimbursable expenses incurred in connection with auction and liquidation contracts.

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying condensed consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled \$10,509 and \$1,825 for the three months ended June 30, 2017 and 2016, respectively, and \$21,119 and \$4,843 for the six months ended June 30, 2017 and 2016, 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 condensed consolidated balance sheets. If, during the auction or liquidation sale, the Company determines that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, the Company accrues a loss on the contract in the period that the loss becomes known.

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

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

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs which totaled \$662 and \$707 for the three months ended June 30, 2017 and 2016, respectively, and \$1,327 and \$1,386 for the six months ended June 30, 2017 and 2016, respectively.

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

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

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

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

Direct cost of services relate to service and fee revenues. The costs consist of employee compensation and related payroll benefits, travel expenses, the cost of consultants assigned to revenue-generating activities and direct expenses billable to clients in the Valuation and Appraisal segment. Direct costs of services include participation in profits under collaborative arrangements in which the Company is a majority participant. Direct costs of services also include the cost of consultants and other direct expenses related to auction and liquidation contracts pursuant to commission and fee based arrangements in the Auction and Liquidation segment. Direct cost of services in the Principal Investments - United Online segment include cost of telecommunications and data center costs, personnel and

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

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

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

***(f) Concentration of Risk***

Revenues from one liquidation service contract to a retailer represented 7.1% of total revenues during the three months ended June 30, 2017 and 9.3% of total revenues during the six months ended June 30, 2017. Revenues in the Capital Markets, Auction and Liquidation, Valuation and Appraisal and Principal Investments - United Online segment are primarily generated in the United States, Australia, Canada and Europe.

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

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

***(g) Advertising Expenses***

The Company expenses advertising costs, which consist primarily of costs for printed materials, as incurred. Advertising costs totaled \$862 and \$761 for the three months ended June 30, 2017 and 2016, respectively, and \$1,043 and \$886 for the six months ended June 30, 2017 and 2016, respectively. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

***(h) Share-Based Compensation***

The Company's share-based payment awards principally consist of grants of restricted stock and restricted stock units. 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 statements of operations over the requisite service or performance period the award is expected to vest. The fair value of the liability-classified award will be subsequently remeasured at each reporting date through the settlement date. Change in fair value during the requisite service period will be recognized as compensation cost over that period.

***(i) Restructuring Charge***

The Company recorded a restructuring charge in the amount of \$6,588 during the six months ended June 30, 2017. In June 2017, the Company implemented cost savings measures taking into account the planned synergies as a result of the acquisition of FBR & Co. ("FBR"), as more fully described in Note 3, which included a reduction in force for some of the corporate executives of FBR and a restructuring to integrate FBR's operations with the Company's operations in the Capital Market's segment. These initiatives resulted in a restructuring charge of \$6,105 in the second quarter of 2017. The restructuring charge included \$1,298 related to severance and \$884 related to the accelerated vesting of restricted stock awards to former corporate executives of FBR and \$1,994 of severance and \$540 related to accelerated vesting of stock awards to employees and \$1,389 of lease loss accruals and impairments for the planned consolidation of office space related to operations in the Capital Markets segment. Of the \$6,105 of restructuring charges, \$3,923 related to the Capital Markets segment and \$2,182 related to corporate overhead. The restructuring charge in 2017 also included employee termination costs of \$109 and \$483 in the second quarter and the six months ended 2017,

respectively, related to a reduction in personnel in the principal investments – United Online segment of our operations.

The following tables summarize the restructuring charge:

Accrued restructuring charge at December 31, 2016	\$ 694
Restructuring charge	6,588
Cash paid	(1,788)
Non-cash items	(2,207)
Accrued restructuring charge at June 30, 2017	\$3,287

	<b>Three Months Ended June 30, 2017</b>			
		<b>Principal Capital Investments – Markets United Online</b>	<b>Corporate</b>	<b>Total</b>
Restructuring charge:				
Employee termination costs	\$2,534	\$ 109	\$ 2,182	\$4,825
Facility closure and consolidation charge	1,389	—	—	1,389
Total restructuring charge	\$3,923	\$ 109	\$ 2,182	\$6,214

	<b>Six Months Ended June 30, 2017</b>			
		<b>Principal Capital Investments – Markets United Online</b>	<b>Corporate</b>	<b>Total</b>
Restructuring charge:				
Employee termination costs	\$2,534	\$ 483	\$ 2,182	\$5,199
Facility closure and consolidation charge	1,389	—	—	1,389
Total restructuring charge	\$3,923	\$ 483	\$ 2,182	\$6,588

There was no restructuring charge for the three and six months ended June 30, 2016.

**(j) 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 carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it

is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

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

***(k) 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.

***(l) Restricted Cash***

As of June 30, 2017, restricted cash balance of \$5,632 included \$5,144 of cash collateral related to certain retail liquidation engagements and \$488 cash segregated in a special bank account for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication supplier. As of December 31, 2016, restricted cash balance of \$3,294 included \$1,440 of cash collateral related to a retail liquidation engagement in Australia, \$1,320 of cash collateral for foreign exchange contracts and \$534 cash segregated in a special bank account for the benefit of customers related to our broker dealer subsidiary and collateral for one of our telecommunication suppliers.

***(m) Securities Borrowed and Securities Loaned***

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

The Company accounts for securities lending transactions in accordance with Accounting Standards Update (“ASU”) 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” requiring companies to report disclosures of offsetting assets and liabilities. The Company does not net securities borrowed and securities loaned and these items are presented on a gross basis in the condensed consolidated balance sheets.

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

The Company clears all of its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The amount receivable from or payable to the clearing brokers represents the net of proceeds from unsettled securities sold, the Company’s clearing deposit and amounts receivable for commissions less amounts payable for

unsettled securities purchased by the Company and amounts payable for clearing costs and other settlement charges. This amount also includes the cash collateral received for securities loaned less cash collateral for securities borrowed. Any amounts payable would be fully collateralized by all of the securities owned by the Company and held on deposit at the clearing broker.

***(o)Accounts Receivable***

Accounts receivable represents amounts due from the Company's auction and liquidation, valuation and appraisal, capital markets and principal investments - United Online customers. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers' financial condition and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. Bad debt expense and changes in the allowance for doubtful accounts for the three and six months ended June 30, 2017 and 2016 are included in Note 5.

***(p)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.

***(q)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. Depreciation and amortization expense was \$696 and \$84 for the three months ended June 30, 2017 and 2016, respectively, and \$1,214 and \$175 for the six months ended June 30, 2017 and 2016, respectively.



***(r) 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 June 30, 2017 and December 31, 2016, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following securities:

	June 30, 2017	December 31, 2016
Securities and other investments owned		
Common stocks and warrants	\$20,771	\$ 2,084
Corporate bonds	1,620	1,025
Loan receivable	29,108	—
Partnership interests	26,705	13,470
	\$78,204	\$ 16,579
Securities sold not yet purchased		
Common stocks	\$2,594	\$ —
Corporate bonds	932	846
	\$3,526	\$ 846

***(s) Fair Value Measurements***

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

within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company's securities and other investments owned and securities sold and not yet purchased are comprised of common stocks and warrants, corporate bonds, loans receivable 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 Company also invests in proprietary investment funds that are valued at net asset value ("NAV") determined by the fund administrator. The underlying securities held by these investment companies are primarily corporate and asset-backed fixed income securities and restrictions exist on the redemption of amounts invested by the Company. As a practical expedient, the Company relies on the NAV of these investments as their fair value. The NAVs that have been provided by the fund administrators are derived from the fair values of the underlying investments as of the reporting date. In accordance with ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," ("ASU 2015-07"), these investment funds are not categorized within the fair value hierarchy.

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

The following tables present information on the financial assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

Financial Assets and Liabilities Measured at Fair Value

on a Recurring Basis at June 30, 2017, Using

	Fair value at June 30, 2017	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities and other investments owned:				
Common stocks and warrants	\$20,771	\$ 11,008	\$ —	\$ 9,763
Corporate bonds	1,620	—	1,620	—
Loan receivable	29,108	—	—	29,108
Partnership interests	21,726	4,660	44	17,022
Total assets measured at fair value	\$73,225	\$ 15,668	\$ 1,664	\$ 55,893
Liabilities:				
Securities sold not yet purchased:				
Common stocks	\$2,594	\$ 2,594	\$ —	\$ —
Corporate bonds	932	—	932	—