

B. Riley Financial, Inc.  
Form 10-K  
March 06, 2019

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

**FORM 10-K**

(Mark  
One)

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

**For the fiscal year ended December 31, 2018**

**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 001-37503**

**B. RILEY FINANCIAL, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

**27-0223495**

(State or Other Jurisdiction of

(I.R.S. Employer Identification No.)

Incorporation or Organization)

**21255 Burbank Boulevard, Suite 400**

**Woodland Hills, CA**

**91367**

(Address of Principal Executive Offices) (Zip Code)

**(818) 884-3737**

(Registrant's telephone number, including area code)

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

**Common Stock, par value \$0.0001 per share**

**7.25% Senior Notes due 2027**

**7.50% Senior Notes due 2027**

**7.375% Senior Notes due 2023**

**6.875% Senior Notes due 2023**

**7.50% Senior Notes due 2021**

**(Title of Class)**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes:  No:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Yes:  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes:  No

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

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

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 Act). Yes:   
No

The aggregate market value of the registrant's common stock held by non-affiliates, based on the closing price of the registrant's common stock as reported on the NASDAQ Global Market on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$435.1 million. For purposes of this calculation, it has been assumed that all shares of the registrant's common stock held by directors, executive officers

and stockholders beneficially owning ten percent or more of the registrant's common stock are held by affiliates. The treatment of these persons as affiliates for purposes of this calculation is not conclusive as to whether such persons are, in fact, affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of February 28, 2019 was 26,646,043.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement relating to the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

**B. RILEY FINANCIAL, INC.**

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## PART I

This Annual Report on Form 10-K (this “Annual Report”) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “see,” “may,” “will,” “should,” “could,” “future,” “likely,” “predict,” “project,” “potential,” “continue,” “estimate” and similar expressions generally intended to identify forward-looking statements, but are not exclusive means of identifying forward-looking statements in this Annual Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the Securities and Exchange Commission (the “SEC”). Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed in “Part I—Item 1A. Risk Factors” contained in this Annual Report. Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in “guarantee” based engagements; competition in the asset management business; potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our Auction and Liquidations business; potential significant liability and harm to our reputation if we are required to pay the termination fee or other obligations of Vintage Capital in connection with the ongoing litigation with Rent-A-Center, the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities as necessary; failure to comply with the terms of our credit agreements; our ability to meet future capital requirements; our ability to realize the benefits of our completed and proposed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; our ability to promptly and effectively integrate our business with that of magicJack; the reaction to the magicJack acquisition of our and magicJack’s customers, employees and counterparties; and the diversion of management time on acquisition-related issues. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

### Item 1. BUSINESS

*General*

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

B. Riley FBR, Inc. (“B. Riley FBR”) is a leading, full service investment bank providing financial advisory, corporate finance, research, securities lending and sales and trading services to corporate, institutional and high net worth individual clients. B. Riley FBR was formed in November 2017 through the merger of B. Riley & Co, LLC and FBR Capital Markets & Co., which the Company acquired in June 2017; the name of the combined broker dealer was subsequently changed to B. Riley FBR, Inc.

B. Riley Wealth Management, Inc provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments. B. Riley Wealth Management was formerly Wunderlich Securities, Inc., which the Company acquired on July 3, 2017 and changed the name in June 2018.

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

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

Great American Capital Partners, LLC (“GACP”), the general partner of two private funds, GACP I, L.P. and GACP oII, L.P., both direct lending funds that provide senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

GlassRatner Advisory & Capital Group LLC (“GlassRatner”), a specialty financial advisory services firm that provides consulting services to shareholders, creditors and companies, including due diligence, fraud investigations, corporate litigation support, crisis management and bankruptcy services. We acquired GlassRatner on August 1, 2018. GlassRatner strengthens B. Riley’s diverse platform and compliments the restructuring services provided by B. Riley FBR.

Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients.

Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients.

We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. We acquired United Online, Inc. (“UOL”) on July 1, 2016 and magicJack VocalTec Ltd. (“magicJack”) on November 14, 2018 as part of our principal investment strategy.

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

magicJack is a Voice over IP (“VoIP”) cloud-based technology and services communications provider.

We are headquartered in Los Angeles with offices in major cities throughout the United States including New York, Chicago, Boston, Dallas, Memphis, Metro Washington D.C and West Palm Beach.

For financial reporting purposes we classify our businesses into four operating segments: (i) Capital Markets, (ii) Auction and Liquidation, (iii) Valuation and Appraisal and (iv) Principal Investments - United Online and magicJack.

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



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

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

Principal Investments - United Online and magicJack Segment. Our Principal Investments - United Online and magicJack segment consists of businesses which have been acquired primarily for attractive investment return characteristics. Currently, this segment includes UOL, through which we provide consumer Internet access, and magicJack, through which we provide VoIP communication and related product and subscription services.

### ***Recent Developments***

On June 17, 2018, B. Riley Financial, Inc. (the “Company” or “B. Riley”) entered into certain agreements pursuant to which B. Riley agreed to provide certain debt and equity funding and other support in connection with the acquisition (the “Acquisition”) by Vintage Rodeo Parent, LLC (the “Vintage Parent”), of Rent-A-Center, Inc. (“Rent-A-Center”), contemplated by that certain merger agreement dated as of June 17, 2018, by and among Vintage Parent, Vintage Rodeo Acquisition, Inc. a wholly owned subsidiary of Vintage Parent (the “Merger Sub” or the “Borrower”), and Rent-A-Center (the “Merger Agreement”).

In connection therewith, B. Riley and Vintage RTO, L.P., an affiliate of Vintage Parent (“Vintage Merger Guarantor”), entered into a Limited Guarantee dated as of June 17, 2018 (the “Limited Guarantee”), in favor of Rent-A-Center, pursuant to which B. Riley and Vintage Merger Guarantor (together, the “Merger Guarantors”) agreed to guarantee, jointly and severally, to Rent-A-Center the payment, performance and discharge of all of the liabilities and obligations of Vintage Parent and Merger Sub under the Merger Agreement when required in accordance with the Merger Agreement (the “Guaranteed Obligations”), including without limitation, (i) termination fees in the amount of \$126.5 million due to Rent-A-Center if the Merger Agreement is properly terminated (the “Termination Fee”); and (ii) reimbursement and indemnification obligations when required (collectively, the “Guarantee Obligations”), provided, that the liability under the Limited Guarantee shall not exceed \$128.5 million.

In connection with the execution of the Limited Guarantee, the Company entered into a Mutual Indemnity/Contribution Agreement, dated as of June 17, 2018 (the “Mutual Indemnity Agreement”), with the Vintage Merger Guarantor and Samjor Family, LP (collectively, the “Vintage Indemnity Parties”). Under the Mutual Indemnity Agreement, the Vintage Guarantors agreed, jointly and severally, to indemnify and hold harmless B. Riley and its affiliates from damages and liabilities arising out of the Guarantee Obligations, other than those caused B. Riley’s failure to fund under their debt or equity commitments.

On December 18, 2018, Rent-A-Center purported to terminate the Merger Agreement because the end date of the agreement was allegedly not extended prior to December 17, 2018 by Vintage Parent. Rent-A-Center delivered notice of such termination to Vintage Parent, and notified Vintage Parent of its obligation under the terms of the Merger Agreement to pay Rent-A-Center the Termination Fee within three business days.

On December 18, 2018, Vintage Capital Management, LLC, an affiliate of Vintage Parent (“Vintage Capital”), delivered a letter to Rent-A-Center stating that Rent-A-Center’s purported termination of the Merger Agreement is invalid, that it believes the Merger Agreement remains in effect. On December 21, 2018, Vintage Capital filed a complaint in the Court of Chancery of the State of Delaware (the “Court”) challenging Rent-A-Center’s purported termination of the Merger Agreement and demand for payment of the Termination Fee. The relief sought by Vintage Capital includes declaratory judgements that the Merger Agreement has not been terminated and remains in full force and effect, that Rent-A-Center has breached its obligations under the Merger Agreement and is not excused from failing to comply with its obligations thereunder and that the Termination Fee is an unenforceable penalty.

On December 28, 2018, Rent-A-Center provided each of B. Riley and the Vintage Merger Guarantors with a written request under the Limited Guarantee (a “Performance Demand”), to promptly, and in any event within ten (10) Business Days, pay to Rent-A-Center the Guaranteed Obligations (including the Termination Fee) in full.

On December 30, 2018, B. Riley filed a motion in the Court to intervene in the above referenced case filed by Vintage Capital pursuant to which B. Riley is seeking declaratory judgments, among other things, that the parties agreed to

extend the End Date under the Merger Agreement and that Rent-A-Center is estopped from terminating the Merger Agreement, that Rent-A-Center has breached the Merger Agreement and its obligations of good faith and fair dealing in connection with consummating the Merger, and that the Termination Fee is an unenforceable penalty. B. Riley is also seeking an award of costs and reasonable attorneys' fees and such other further relief as the Court finds equitable and appropriate.

At a hearing held on December 31, 2018, the Court stated that it would grant a temporary restraining order to preserve the status quo, which order would prohibit Rent-A-Center from engaging in certain transactions pending an expedited trial on the merits. On January 3, 2019, the Court granted B. Riley's motion to intervene in the Vintage Capital case and on January 7, 2019, the Court granted a temporary restraining order restricting Rent-A-Center from engaging in certain transactions prior to the trial on the merits scheduled for February 11, 2019. On February 11th and 12th, a trial was held in Delaware, post-trial briefs were filed on February 22, 2019 and March 1, 2019. A post-trial hearing has been scheduled for March 11, 2019. The Company believes that it is reasonably possible that the Court will rule in favor of the Performance Demand. The amount of possible loss is not estimable; however, the range of loss could be from \$0 to \$128.5 million.

On November 14, 2018, the Company entered into an agreement to acquire shares of National Holdings Corporation ("National Holdings"), a Nasdaq-listed issuer, from Fortress Biotech, Inc. for an aggregate purchase price totaling approximately \$22.9 million. The transaction was completed in two tranches. In the first tranche, which was completed in the fourth quarter of 2018, the Company acquired shares representing 24% of the total outstanding shares of National Holdings. The second tranche was contingent upon receipt of the approval of Financial Industry Regulatory Authority, Inc., which was obtained in the first quarter of 2019. As a result of the closing of the second tranche, the Company now holds 49% of the outstanding shares of National Holdings. The equity ownership in National Holdings is accounted for under the equity method of accounting.

BRPI Acquisition Co LLC, a Delaware corporation (“BRPAC”), UOL, and YMax Corporation, a Delaware corporation (“YMax”; and, together with BRPAC and UOL, the “Borrowers”), our indirect wholly-owned subsidiaries, in their capacity of borrowers, entered into a credit agreement (the “BRPAC Credit Agreement”) dated December 19, 2018, with the Banc of California, N.A. in its capacity as agent and lender and with the other lenders party thereto. Certain of the Borrowers’ U.S. subsidiaries are guarantors of all obligations under the BRPAC Credit Agreement and are parties to the BRPAC Credit Agreement in such capacity (collectively, the “Secured Guarantors”; and, together with the Borrowers, the “Credit Parties”). In addition, we and B. Riley Principal Investments, LLC, the parent corporation of BRPAC and our subsidiary, are guarantors of the obligations under BRPAC Credit Agreement pursuant to standalone guaranty agreements pursuant to which the shares of outstanding membership interests of the BRPAC are pledged as collateral. The obligations under the BRPAC Credit Agreement are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of the Credit Parties, including a pledge of (a) 100% of the equity interests of the Credit Parties, (b) 65% of the equity interests in United Online Software Development (India) Private Limited, a private limited company organized under the laws of India and (c) 65% of the equity interests in magicJack. The credit facilities under the BRPAC Credit Agreement consist of: (a) a term credit facility under which the Borrowers may borrow up to \$80.0 million on the closing date with a final maturity date of five years from the closing date; and (b) an optional accordion term loan credit facility under which the Borrowers may borrow up to \$10.0 million with a final maturity date of five years from the closing date. On February 1, 2019, the Borrowers entered into the First Amendment to Credit Agreement and Joinder with City National Bank as a new lender in which the new lender extended to Borrowers the additional \$10.0 million as further discussed in Note 11 to the accompanying financial statements. Borrowings under the BRPAC Credit Agreement are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity. The borrowings under the BRPAC Credit Agreement bear interest equal to the LIBOR plus a margin of 2.50% to 3.00% depending on the Borrowers’ consolidated total funded debt ratio as defined in the BRPAC Credit Agreement. The proceeds of the BRPAC Credit Agreement were used to refinance a portion of the purchase price of the recently closed acquisition of magicJack and to pay related costs. Borrowings under the BRPAC Credit Agreement will bear interest at a rate equal to (A) the LIBOR Rate for Eurodollar loans, plus (B) the applicable margin rate, which ranges from two and one-half percent (2.5%) to three percent (3.0%) per annum. Amounts outstanding under the Credit Facilities are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity.

On September 6, 2018, we entered into an underwriting agreement (the “Underwriting Agreement”) with B. Riley FBR, as representative of several underwriters named in the Underwriting Agreement, pursuant to which we agreed to sell to the underwriters up to an aggregate principal amount of \$87.0 million of the 6.875% Senior Notes due September 2023 (the “6.875% 2023 Notes”), plus an additional \$13.1 million aggregate principal amount to cover underwriter overallotments. As of December 31, 2018, we have sold approximately \$100.1 million of the 6.875% 2023 Notes. The 6.875% 2023 Notes were issued pursuant to the Indenture between us and U.S. Bank, National Association, as trustee. The 6.875% 2023 Notes sold under the Underwriting Agreement were issued pursuant to a prospectus dated April 6, 2018, as supplemented by a prospectus supplement dated September 7, 2018, each filed with the SEC pursuant to the Company’s effective Registration Statement on Form S-3 (File No. 333-223789), which was declared effective by the SEC on April 6, 2018.

During 2017 and 2018, we entered into a series of related At the Market Issuance Sales Agreements (the “Sales Agreements”) with B. Riley FBR, Inc. governing an ongoing program of at-the-market sales of our senior notes. We filed prospectus supplements under which we sold the senior notes on June 28, 2017, December 19, 2017, April 25,

2018, June 5, 2018 and December 18, 2018. Each of these prospectus supplements was filed pursuant to an effective Registration Statement on Form S-3. In aggregate, we have sold senior notes having an aggregate principal balance of \$467.2 million under the Sales Agreements and related prospectus supplements. Our most recent Sales Agreement was entered into on December 18, 2018 (the “December 2018 Program”), and, under the related prospectus supplement, we may offer and sell up to \$75.0 million of the senior notes. As of December 31, 2018, we had \$75.0 million remaining availability under the December 2018 Program.

On April 18, 2018, the United States Bankruptcy Court for the District of Delaware issued an order (the “Order”) approving the sale of certain rights to the assets of The Bon-Ton Stores, Inc. and its affiliates (the “Debtors”) and granted certain other relief to GA Retail, Inc. (“GA”), an indirect wholly owned subsidiary of the Company, Tiger Capital Group, LLC (“Tiger”), and the indenture trustee (the “Indenture Trustee”; together with GA and Tiger, the “Joint Venture”) under the Second Lien Indenture (as defined in the Order). Among other things, the Order approved the Joint Venture’s right to act as the Debtors’ exclusive agent to conduct the sale of substantially all of the Debtors’ assets on the terms and conditions set forth in that certain agency agreement dated April 18, 2018 by and among the Debtors and the Joint Venture (the “Agency Agreement” and the related transactions, the “Bon-Ton Transactions”).

Pursuant to the Agency Agreement, the Joint Venture agreed to pay (a) a cash purchase price of approximately \$560.0 million (the “Cash Purchase Price”), which includes all amounts due and owing by the Debtors to the lenders under that certain debtor in possession financing facility, the cash amounts used to collateralize certain letters of credit and an amount to fund the payment of certain fees and expenses incurred by the Debtors’ professionals, (b) a credit bid of \$125.0 million, and (c) \$93.8 million to pay for certain administrative expenses of the Debtors as reflected in an agreed upon wind down budget. In exchange for such payments and the payment of certain expenses, the Joint Venture received the right to receive all proceeds (cash or otherwise) of any of the Debtors’ Assets except as otherwise set forth in the Agency Agreement (the “Proceeds”). The sale of inventory and certain of the assets of Bon-Ton through a going-out-of-business sale was completed on August 31, 2018. The Joint Venture continues to wind down the business activities of Bon-Ton and sale of certain real property, among other items, in accordance with the Agency Agreement.

To fund GA’s portion of the Cash Purchase Price, GA borrowed (i) \$300.0 million from Wells Fargo Bank, N.A. (“Wells Fargo Bank”) pursuant to an amended and restated consent dated April 19, 2018 to that certain credit agreement among GA, its affiliates and Wells Fargo Bank, as amended (the “Credit Agreement”), and (ii) approximately \$51.0 million from GACP II, L.P., a direct lending fund managed by GACP, an affiliate of GA and a wholly owned subsidiary of the Company. Each of these loans is to be repaid from the Proceeds after the payment of certain expenses incurred by the Joint Venture in connection with the sale. In connection with the borrowing from Wells Fargo Bank, the maximum borrowing limit under the Credit Agreement was increased solely for purposes of the Bon-Ton Transactions from \$200.0 million to \$300.0 million and reverted back to \$200.0 million upon repayment of the amounts borrowed in connection with the Bon-Ton Transactions. The amounts borrowed in connection with the Bon-Ton Transaction were fully repaid in the third quarter of 2018.

On March 15, 2018, we were a party to a Secondary Stock Purchase Agreement with ACP BD Investments, LLC (“ACP”) which required us to purchase 950,000 shares of our common stock at \$18.25 per share or approximately \$17.3 million in cash. The stock was repurchased from ACP on April 2, 2018 and we retired the shares.

On January 12, 2018, we converted a loan receivable from bebe stores, inc. (“bebe”) in the amount of \$16.9 million in principal and accrued interest into 2,819,528 shares of common stock of bebe, representing a conversion price at \$6.00 per share. On January 12, 2018, we also purchased 500,000 shares of bebe common stock at \$6.00 per share of which

250,000 shares were newly issued common stock by bebe and 250,000 shares were purchased from the majority shareholder of bebe. In total, we acquired 3,319,528 shares of bebe common stock. In connection with such transactions, bebe fixed the size of its board of directors at five members of which two employees of we were newly appointed to the bebe board. At December 31, 2018, we had an ownership of approximately 30.1% of bebe's outstanding common shares.

On November 9, 2017, we entered into an Agreement and Plan of Merger (the "magicJack Merger Agreement") with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the ours ("Merger Sub"), and magicJack VocalTec Ltd., an Israeli corporation ("magicJack"), pursuant to which Merger Sub will merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of ours. Subject to the terms and conditions of the magicJack Merger Agreement, each outstanding share of magicJack converted into the right to receive \$8.71 in cash without interest, representing approximately \$143.1 million in aggregate merger consideration. The closing of the transaction was subject to the receipt of certain regulatory approvals and the satisfaction of other closing conditions. The acquisition of magicJack closed in November of 2018.

### ***Our Business***

#### **B. Riley FBR**

##### *Investment Banking and Corporate Finance*

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

### *Sales, Trading and Corporate Services*

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

### *Equity Research*

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

Our research department includes research analysts maintaining coverage on a variety of companies in a variety of industry sectors. Our research department annually organizes non-deal road shows for issuers in our targeted industries. To provide our institutional clients access to management teams of companies in our coverage universe and others, our research department has held 18 consecutive annual institutional investor conferences.

### *Capital Management*

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

### *Proprietary Trading*



We engage in trading activities for strategic investment purposes (i.e. proprietary trading) utilizing the firm's capital. Proprietary trading activities include investments in public and private stock and debt securities. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry and includes a section referred to as the "Volcker Rule". The Volcker Rule provides for a limitation on proprietary trading and investments by certain bank holding companies. We are not a bank holding company and, as a result, the limitations applicable to bank holding companies regarding proprietary trading and investment in the Volcker Rule do not apply to us.

## **B. Riley Wealth Management**

### *Wealth Management*

B. Riley Wealth Management provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments. Our financial advisors provide a broad range of investments and services to our clients, including financial planning services. Wunderlich Securities, Inc. ("Wunderlich") was established in 1996 and headquartered in Memphis, Tennessee. Wunderlich became a wholly-owned subsidiary of B. Riley Financial, Inc., in July 2017 and its operations are included in our Capital Markets segment. In June 2018, Wunderlich changed its name to B. Riley Wealth Management, Inc.

## **GlassRatner**

### *Financial Advisory Services*

GlassRatner, a specialty financial advisory services firm we acquired on August 1, 2018, provides consulting services to shareholders, creditors and companies, including due diligence, fraud investigations, corporate litigation support, crisis management and bankruptcy services. The addition of GlassRatner strengthens B. Riley's diverse platform and compliments the restructuring services provided by B. Riley FBR.

The business described above for B. Riley FBR, B. Riley Wealth Management and GlassRatner is reported in our Capital Markets segment for financial reporting purposes.

## Great American Group

### *Retail Store Liquidations and Wholesale and Industrial Liquidations*

We enable our clients to quickly and efficiently dispose of under-performing assets and generate cash from excess inventory by conducting or assisting in retail store closings, going out of business sales, bankruptcy sales and fixture sales. Financial institution and other capital providers rely on us to maximize recovery rates in distressed asset sales and in retail bankruptcy situations. Additionally, healthy, mature retailers utilize our proven inventory management and strategic disposition solutions, relying on our extensive network of retail professionals, to close unproductive stores and dispose of surplus inventory and fixtures as existing stores are updated.

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

We design and implement customized disposition programs for our clients seeking to convert excess wholesale and industrial inventory and operational assets into capital. We dispose of a wide array of assets including, among others, equipment related to transportation, heavy mobile construction, energy exploration and services, metal fabrication, food processing, semiconductor fabrication, and distribution services. We manage projects of all sizes and scopes across a variety of asset categories. We believe that our databases of information regarding potential buyers that we have collected from past transactions and engagements, our nationwide name recognition and experience with alternative distribution channels allow us to provide superior wholesale and industrial disposition services.

Great American Group provides the foregoing services to clients on a guarantee, fee or outright purchase basis.

Guarantee. When providing services on a guarantee basis, we guarantee the client a specific recovery often expressed as a percentage of retail inventory value or wholesale inventory cost or, in the case of machinery or equipment, a set dollar amount. This guarantee is often required to be supported by a letter of credit, a cash deposit or a combination thereof. Cash deposits are typically funded in part with available cash together with short term borrowings under our credit facilities. Often when we provide auction or liquidation services on a guarantee basis, we do so through a collaborative arrangement with other service providers. In this situation, each collaborator agrees to provide a certain percentage of the guaranteed amount to the client through a combination of letters of credit, cash and financing. If we

are engaged individually, we receive 100% of the net profit, less debt financing fees, sale related expenses (if any) and any share of the profits due to the client as a result of any profit sharing arrangement entered into based on a pre-negotiated formula. If the engagement was conducted through a collaborative arrangement, the profits or losses are divided among us and our partner or partners as set forth in the agreement governing the collaborative arrangement. If the net sales proceeds after expenses are less than the guarantee, we, together with our partners if the engagement was conducted through a collaborative arrangement, are responsible for the shortfall and will recognize a loss on the engagement.

Fee. When we provide services on a fee basis, clients pay a pre-negotiated flat fee for the services provided, a percentage of asset sales generated or a combination of both.

Outright Purchase. When providing services on an outright purchase basis, we purchase the assets from the client and typically sell them at auction, orderly liquidation, through a third-party broker or, less frequently, as augmented inventory in conjunction with another liquidation that we are conducting. In an outright purchase, we take, together with any collaboration partners, title to the assets and absorb the profit or loss associated with the asset disposition.

The retail store liquidations and wholesale and industrial asset dispositions business of Great American Group described above is reported in our Auction and Liquidation segment for financial reporting purposes.

### *Valuation and Appraisal*

Our Valuation and Appraisal teams provide independent appraisals to financial institutions, lenders, private equity firms and other providers of capital for estimated liquidation values of assets. These teams include experts specializing in particular industry niches and asset classes. We provide Valuation and Appraisal services across five general categories:

Consumer and Retail Inventory. Representative types of appraisals and valuations include inventory of specialty apparel retailers, department stores, jewelry retailers, sporting goods retailers, mass and discount merchants, home furnishing retailers and footwear retailers.

Wholesale and Industrial Inventory. Representative types of appraisals and valuations include inventory held by manufacturers or distributors of automotive parts, chemicals, food and beverage products, wine and spirits, building and construction products, industrial products, metals, paper and packaging.

Machinery and Equipment. Representative types of asset appraisals and valuations include a broad range of equipment utilized in manufacturing, construction, transportation and healthcare.

Intangible Assets. Representative types of asset appraisals and valuations include intellectual property, goodwill, brands, logos, trademarks and customer lists.

We provide Valuation and Appraisal services on a pre-negotiated flat fee basis.

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

### **Principal Investments - United Online and magicJack**

We acquired UOL on July 1, 2016 and magicJack on November 14, 2018 as part of our principal investment strategy. UOL's primary pay service is Internet access, offered under the NetZero and Juno brands. Internet access includes dial-up service, mobile broadband and DSL. magicJack is a VoIP cloud-based technology and services communications provider and the inventor of the magicJack devices.

#### *Internet Access*

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

#### *magicJack Devices*

The magicJack is a VoIP device weighing about one ounce which includes an initial access right period. During the initial access right period customers receive free VoIP phone service for their home, business or while traveling to call anywhere in the United States and Canada. The initial access right period for the different versions of the device have ranged from three to twelve months. The current device available for purchase is the magicJack GO, which includes a twelve month access right period. magicJack devices are sold either directly to customers through our website or through retailers.

#### *Mobile apps*

The Company also offers the magicApp and magicJack Connect mobile apps, which are applications that allow users to make and receive telephone calls through their smart phones or devices. The magicApp and magicJack Connect are mobile apps available for both iOS and Android. The mobile apps allow customers to place and receive telephone calls in the U.S. or Canada on their mobile devices through either an existing or new magicJack account. The mobile apps also give users the ability to add a second phone number to their smart phone for a monthly or annual fee. Customers may purchase international minutes to place telephone calls through the magicJack device or mobile apps to locations outside of the U.S. and Canada.

#### *Access Right Renewals*

Customers who own a magicJack device or mobile app may renew access rights for periods ranging from one month to three years.



*Other magicJack-Related Products*

The Company offers customers other optional products related to their magicJack devices and services, such as custom or vanity phone numbers, Canadian phone numbers and the ability to either change their existing phone numbers or port them to a magicJack device.

*Prepaid Minutes*

The Company's customers can purchase international minutes on a prepaid basis.

*Access and Wholesale Charges*

The Company generates revenues from access and termination fees charged to other carriers, as well as wholesaling telephone service to VoIP providers and telecommunication carriers.

*UCaaS Services and Equipment*

The Company provides hosted communication services and sells hardware and network equipment that are compatible with the service, through its subsidiary, Broadsmart Global, Inc. ("Broadsmart"), which has a track record of provisioning and delivering complex Unified Communication as a Service ("UCaaS") solutions to blue chip corporate customers on a nationwide basis.

*Advertising and other revenue*

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

The business described above for UOL and magicJack is reported in our Principal Investments — UOL and magicJack segment.

## **Customers**

We serve retail, corporate, capital provider and individual customers across our services lines. The services provided to these customers were under short-term liquidation contracts that generally do not exceed a period of six months. There were no recurring revenues from year-to-year in connection with the services we performed under these contracts.

### *B. Riley FBR*

We are engaged by corporate customers, including publicly held and privately owned companies, to provide investment banking, corporate finance, restructuring advisory, research and sales and trading services. We also provide corporate finance, research, wealth management, and sales and trading services to high net worth individuals. We maintain client relationships with companies in the consumer goods, consumer services, defense, industrials and technology industries.

### *B. Riley Wealth Management*

We act as financial wealth management advisors to individuals, families, small businesses, non-profit organizations, and qualified retirement plans. Our investment services are primarily comprised of asset management services to meet the financial plans, financial goals and needs of our customers. We service our customers through a network of 20 branch offices located in 13 states primarily located in the Mid-west and Southern section of the United States.

### *GlassRatner*

We provide specialty financial advisory services to companies, shareholders, creditors and investors on complex business problems and critical board level agenda items including transaction advisory and due diligence, fraud investigations, corporate litigation, business valuations, crisis management and bankruptcy. We provide bankruptcy and restructuring services, forensic accounting and litigation support, valuation services, and real estate consulting.

### *Great American Group*



Our retail Auction and Liquidation clients include financially healthy retailers as well as distressed retailers, bankruptcy professionals, financial institution workout groups and a wide range of professional service providers. Some retail segments in which we specialize include apparel, arts and crafts, department stores, discount stores, drug / health and beauty, electronics, footwear, grocery stores, hardware / home improvement, home goods and linens, jewelry, office / party supplies, specialty stores, and sporting goods. We also provide wholesale and industrial auction services and customized disposition programs to a wide range of clients.

We are engaged by financial institutions, lenders, private equity firms and other capital providers, as well as professional service providers, to provide valuation and advisory services. We have extensive experience in the appraisal and valuation of retail and consumer inventories, wholesale and industrial inventories, machinery and equipment, intellectual property and real estate. We maintain ongoing client relationships with major asset based lenders including Bank of America, JPMorgan Chase, and Wells Fargo.

#### *United Online*

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

#### *magicJack*

magicJack provides complete VoIP phone service for home, business and while traveling. We sell services through retailers, wholesalers or directly to consumers over the Internet in the United States and Canada. The Company has experience provisioning and delivering complex UCaaS solutions to corporate customers on a nationwide basis and it services multi-location, geographically diverse enterprises. The Company provides customers with an ability to make and receive telephone calls through their smart phones, add a second phone number to their smart phone and purchase prepaid minutes to place telephone calls through the magicJack device or mobile apps to locations outside of the U.S. and Canada.

### **Competition**

#### *B. Riley FBR, B. Riley Wealth Management and GlassRatner*

We face intense competition for our Capital Markets services. Since the mid-1990s, there has been substantial consolidation among U.S. and global financial institutions. In particular, a number of large commercial banks, insurance companies and other diversified financial services firms have merged with other financial institutions or have established or acquired broker-dealers. During 2008, the failure or near-collapse of a number of very large financial institutions led to the acquisition of several of the most sizeable U.S. investment banking firms, consolidating the financial industry to an even greater extent. Currently, our competitors are other investment banks,

bank holding companies, brokerage firms, merchant banks and financial advisory firms. Our focus on our target industries also subjects us to direct competition from a number of specialty securities firms and smaller investment banking boutiques that specialize in providing services to these industries.

The industry trend toward consolidation has significantly increased the capital base and geographic reach of many of our competitors. Our larger and better-capitalized competitors may be better able than we are to respond to changes in the investment banking industry, to recruit and retain skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. Many of these firms have the ability to offer a wider range of products than we do, including loans, deposit-taking and insurance, in addition to brokerage, asset management and investment banking services, all of which may enhance their competitive position relative to us. These firms also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in downward pricing pressure in our businesses. In particular, the trend in the equity underwriting business toward multiple book runners and co-managers has increased the competitive pressure in the investment banking industry and has placed downward pressure on average transaction fees.

As we seek to expand our asset management business, we face competition in the pursuit of investors for our investment funds, in the identification and completion of investments in attractive portfolio companies or securities, and in the recruitment and retention of skilled asset management professionals.

#### *Great American Group*

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

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

#### *United Online*

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

#### *magicJack*

The principal competitors for our products and services include the traditional telephone service providers, such as AT&T, Inc., CenturyLink, Inc. and Verizon Communications Inc., which provide telephone service using the public switched telephone network. Certain of these traditional providers have also added, or are planning to add, broadband telephone services to their existing telephone and broadband offerings. We also face, or expect to face, competition from cable companies, such as Cablevision Systems Corp., Charter Communications, Inc., Comcast Corporation, Cox Communications, Inc. and Time Warner Cable (a division of Time Warner Inc.), which offer broadband telephone services to their existing cable television and broadband offerings. Further, wireless providers, including AT&T Mobility, Inc., Sprint Corporation, T-Mobile USA Inc., and Verizon Wireless, Inc. offer services that some customers may prefer over wireline-based service. In the future, as wireless companies continue to offer services at lower prices, their services may become more attractive to customers as a replacement for broadband or wireline-based phone service.

We face competition on magicJack device sales from Apple, Samsung, Motorola and other manufacturers of smart phones, tablets and other hand held wireless devices. Also, we compete against established alternative voice

communication providers, such as Vonage, Google Voice, Ooma, and Skype, which is another non-interconnected voice provider, and may face competition from other large, well-capitalized Internet companies. In addition, we compete with independent broadband telephone service providers.

## **Regulation**

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

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

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

B. Riley FBR and B. Riley Wealth Management are registered as securities broker-dealers with the SEC and are members of FINRA. FINRA is a self-regulatory body composed of members such as our broker-dealer subsidiary that have agreed to abide by the rules and regulations of FINRA. FINRA may expel, fine and otherwise discipline member firms and their employees. B. Riley FBR and B. Riley Wealth Management are licensed as broker-dealers in 50 states in the U.S., requiring us to comply with the laws, rules and regulations of each such state. Each state may revoke the license to conduct securities business, fine and otherwise discipline broker-dealers and their employees. We are also registered with NASDAQ and must comply with its applicable rules.

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

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

Our asset management subsidiaries, B. Riley Capital Management, LLC and B. Riley Wealth Management are SEC-registered investment advisers, and accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act of 1940 include record-keeping, advertising and operating requirements, and prohibitions on fraudulent activities.

Various regulators, including the SEC, FINRA and state securities regulators and attorneys general, are conducting both targeted and industry-wide investigations of certain practices relating to the financial services industry, including marketing, sales practices, valuation practices, asset managers, and market and compensation arrangements. These investigations, which have been highly publicized, have involved mutual fund companies, broker-dealers, hedge funds, investors and others.

In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices.

In July 2010, Congress enacted Dodd-Frank. Dodd-Frank institutes a wide range of reforms that will impact financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. Many of the provisions of Dodd-Frank are subject to further rulemaking procedures and studies and will take effect over several years. As a result, we cannot assess the impact of these new legislative and regulatory changes on our business at the present time.

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

In the United States, magicJack is subject to federal regulation under the rules and regulations of the Federal Communications Commission (“FCC” or the “Commission”) and various state and local regulations. magicJack provides broadband telephone services using VoIP technology and/or services treated as information services by the FCC. magicJack is also licensed as a Competitive Local Exchange Carrier (“CLEC”) and is subject to extensive federal and state regulation applicable to CLECs. The FCC has to date asserted limited statutory jurisdiction and regulatory authority over the operations and offerings of certain providers of broadband telephone services, including non-interconnected VoIP. FCC regulations may now, or may in the future, be applied to magicJack’s broadband telephone operations. Other FCC regulations apply to magicJack because it provides international calling capability. Some of the magicJack’s operations are also subject to regulation by state public utility commissions (“PUCs”).

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act revised the U.S. corporate income tax by, among other things, lowering the federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, providing an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creating new taxes on certain foreign sourced earnings. In the fourth quarter of 2017, we recorded a provisional tax expense of \$13.1 million, related to the remeasurement of our net deferred tax assets to reflect the reduction in the corporate income tax rate and tax expense related to non-U.S. activities resulting from the Tax Act. During the fourth quarter of 2018, the Company completed its accounting for the provisional amounts recognized at December 31, 2017 and the impact was not significant. See Note 15 to the accompanying financial statements for additional information.

## **Employees**

As of December 31, 2018, we had 1,071 full time employees. We are not a party to any collective bargaining agreements. We have never experienced a work stoppage or strike and believe that relations with our employees are good.

## **Acquisition of magicJack**

On November 9, 2017, we entered into the magicJack Merger Agreement with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of ours (“Merger Sub”), pursuant to which Merger Sub would merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Pursuant to the terms of the magicJack Merger Agreement, customary closing conditions were satisfied, and the acquisition was completed on November 14, 2018. Subject to the terms and conditions of the magicJack Merger Agreement, each outstanding share of magicJack converted into the right to receive \$8.71 in cash without interest, representing approximately \$143.1 million in aggregate merger consideration.

## **Acquisition of Wunderlich**

On May 17, 2017, we entered into a Merger Agreement (the “Wunderlich Merger Agreement”) with Wunderlich. Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. The total consideration of \$65.1 million paid to Wunderlich shareholders in connection with the Wunderlich acquisition was comprised of (a) cash in the amount of \$29.7 million; (b) 1,974,812 newly issued shares of our common stock at closing which were valued at \$31.5 million for accounting purposes determined based on the closing market price of our shares of common stock on the acquisition date on July 3, 2017, less a 13.0% discount for lack of marketability as the shares issued are subject to certain escrow provisions and restrictions that limit their trade or transfer; and (c) 821,816 newly issued common stock warrants with an estimated fair value of \$3.9 million. The common stock and common stock warrants issued includes 387,365 common shares and 167,352 common stock warrants that are held in escrow and subject to forfeiture to indemnify us for certain representations and warranties in connection with the acquisition. We believe that the acquisition of Wunderlich will allow us to benefit from wealth management, investment banking, corporate finance, and sales and trading services provided by Wunderlich. The acquisition of Wunderlich is accounted for using the purchase method of accounting. We also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017 for the shares issued in connection with the Wunderlich Merger Agreement. The Registration Rights Agreement provides the Wunderlich shareholders with the right to notice of and, subject to certain conditions, the right to register shares of our common stock in certain future registered offerings of shares of our common stock. In June 2018, Wunderlich changed its name to B. Riley Wealth Management, Inc.



## **Acquisition of FBR**

On June 1, 2017, we completed the purchase of all of the outstanding common stock of FBR, a mid-sized investment bank with operations primarily in Washington D.C and New York, pursuant to a purchase agreement we entered into with FBR on February 17, 2017. The aggregate purchase price for the acquisition was \$73.5 million in a stock transaction through the issuance of 4,831,633 shares of our common stock. Upon completion of the acquisition, we integrated and merged the investment banking operations of BRC with and into FBR and changed the name of FBR to B. Riley FBR.

## **Other**

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

## **Available Information**

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

## Item 1A. RISK FACTORS

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

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

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

- Our ability to attract new clients and obtain additional business from our existing client base;

The number, size and timing of mergers and acquisition transactions, capital raising transactions and other strategic advisory services where we act as an adviser on our Auction and Liquidation and investment banking engagements;

The extent to which we acquire assets for resale, or guarantee a minimum return thereon, and our ability to resell those assets at favorable prices;

- Variability in the mix of revenues from the Auction and Liquidation and Valuation and Appraisal businesses;

The rate of decline we experience from our dial-up and DSL Internet access pay accounts in our UOL business as customers continue to migrate to broadband access which provides faster Internet connection and download speeds offered by our competitors;

- The rate of growth of new service areas;

- The types of fees we charge clients, or other financial arrangements we enter into with clients; and

Changes in general economic and market conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Global economic and political uncertainty, including Brexit, could adversely affect our revenue and results of operations.***

As a result of the international nature of our business, we are subject to the risks arising from adverse changes in global economic and political conditions. Uncertainty about the effects of current and future economic and political conditions on us, our customers, suppliers and partners makes it difficult for us to forecast operating results and to make decisions about future investments. Deterioration in economic conditions in any of the countries in which we do business could result in reductions in sales of our products and services and could cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

On June 23, 2016, eligible members of the electorate in the United Kingdom decided by referendum to leave the European Union, commonly referred to as “Brexit”. On March 29, 2017, the United Kingdom formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. Events related to Brexit are causing significant political uncertainty in both the United Kingdom and the European Union. The impact of Brexit and the resulting effect on the political and economic future of the United Kingdom and the European Union is uncertain, and our business may be adversely affected in ways we do not currently anticipate. Brexit may result in a significant change in the British regulatory environment, which may likely increase our compliance costs. We may find it more difficult to conduct business in the United Kingdom and the European Union, as Brexit may result in increased restrictions on the movement of capital, goods and personnel. Depending on the outcome of negotiations between the United Kingdom and the European Union regarding the terms of Brexit, we may decide to relocate or otherwise alter our European operations to respond to the new business, legal, regulatory, tax and trade environments that may result.

As with any political instability or adverse political developments in or around any of the major countries in which we do business, developments related to Brexit may materially and adversely affect with customers, suppliers and employees and could harm our business, results of operations and financial condition.

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

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

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

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

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

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

***The asset management business is intensely competitive.***

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

· investment performance;

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

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

· business reputation; and

· level of fees and expenses charged for services.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We are subject to risks in using custodians.***

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

***We may suffer losses if our reputation is harmed.***

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

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

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

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

Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks also is critically important to our business. We take protective measures and endeavor

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

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

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

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

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

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

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

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

Certain financial services firms make larger and more frequent commitments of capital in many of their activities. For example, in order to win business, some investment banks increasingly commit to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is typically completed before an investment bank commits to purchase securities for resale. We may participate in this activity and, as a result, we may be subject to increased risk. Conversely, if we do not have

sufficient regulatory capital to so participate, our business may suffer. Furthermore, we may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

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

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

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

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

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

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

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

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



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

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

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

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

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

Widening credit spreads, as well as significant declines in the availability of credit, could adversely affect our ability to borrow on an unsecured basis. Disruptions in the credit markets could make it more difficult and more expensive to obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing and taking principal positions.

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

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

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

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

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

Our executive officers, directors and their affiliates own or control, in the aggregate, approximately 23.4% of our outstanding common stock as of December 31, 2018. In particular, our Co-Chairman and Chief Executive Officer, Bryant R. Riley, owns or controls, in the aggregate, 4,536,475 shares of our common stock or 17.1% of our outstanding common stock as of December 31, 2018. These stockholders are able to exercise influence over matters

requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions, including transactions involving an actual or potential change of control of the company or other transactions that non-controlling stockholders may not deem to be in their best interests. This concentration of ownership may harm the market price of our common stock by, among other things:

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

***We may incur losses as a result of “guarantee” based engagements that we enter into in connection with our Auction and Liquidation solutions business.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We are involved in pending litigation in connection with the purported termination of the Merger Agreement between Vintage Capital and Rent-A-Center, and may incur significant costs or liabilities in connection with the litigation or the termination of the Merger Agreement. Even if the litigation is successful, we, together with other third party transaction partners, may remain subject to certain financial commitments which obligate us to ensure funding for Vintage to complete the acquisition, including the provision of debt and equity funding, and a guarantee of certain of Vintage’s obligations.***

As described in more detail in Item 3. LEGAL PROCEEDINGS of Part I of this Annual Report on Form 10-K, Rent-A-Center has asserted that the Merger Agreement with Vintage Capital was terminated, and that we, together with certain other third parties as guarantors pursuant to the terms of a Limited Guaranty, are obligated to pay Rent-A-Center a termination fee in the amount of \$126.5 million and other guaranteed potential obligations of Vintage Capital. Vintage Capital filed a lawsuit in Delaware seeking, among other things, an order declaring that the Merger Agreement was not terminated and that the termination fee is not due to Rent-A-Center. We intervened in the litigation seeking declaratory judgments, among other things, that the Merger Agreement was extended and that Rent-A-Center is estopped from terminating the Merger Agreement, and that the termination fee is an unenforceable penalty. At this time, we cannot predict the ultimate outcome of this matter definitively, and we may be required to pay the termination fee or other financial commitments of Vintage Capital. Further, the litigation could prove costly, and could divert management’s attention and company resources and harm our reputation. If one or more of the foregoing occur, it could have a material negative impact on our business and could have a negative impact on the price of our securities.

Even if the litigation is successful, we, along with Vintage’s subsidiaries, and affiliates of Guggenheim Corporate Funding, LLC, may remain subject to commitments to provide an aggregate principal amount of approximately \$1.1



billion in debt to finance the acquisition, and to provide equity financing that will be used to fund the remaining portion of the purchase price. We have not allocated funds internally to fulfill our obligations under the Rent-A-Center transaction agreements and expect we will need to syndicate all or a substantial portion of our commitments. This syndication may not be successful, and, even if we are successful in syndicating our commitments, we may be required to syndicate our commitments on terms unfavorable or disadvantageous to us. If we are unable to obtain funding, or funding sufficient for our financial commitments, we may be required to utilize our internal resources which may have a material adverse effect on our financial condition. In these circumstances, we may be forced to scale back certain of our other initiatives or may be unable to pursue opportunities we feel would be advantageous or beneficial to us. Further, if the acquisition cannot otherwise be completed due, in whole or in part, to our, Vintage or our transaction partners' failure to honor our collective or respective individual obligations, we may incur additional liability, and our reputation may be harmed due in whole or in part to circumstances beyond our control. We may, through the guarantee, actions of our transaction partners, and due to other circumstances incur liability above and beyond our financial commitments. If one or more of the foregoing circumstances were to occur, this would have a material negative impact on our business and could have a negative impact on the price of our securities.

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

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

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

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

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

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

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

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

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

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

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

We seek to monitor and control our risk exposure through operational and compliance reporting systems, internal controls, management review processes and other mechanisms. Our investing and trading processes seek to balance our ability to profit from investment and trading positions with our exposure to potential losses. While we employ limits and other risk mitigation techniques, those techniques and the judgments that accompany their application

cannot anticipate economic and financial outcomes or the specifics and timing of such outcomes. Thus, we may, in the course of our investment and trading activities, incur losses, which may be significant.

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

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

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

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

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

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

- actual or anticipated fluctuations in our results of operations;
- announcements of significant contracts and transactions by us or our competitors;
- sale of common stock or other securities in the future;
- the trading volume of our common stock;
- changes in our pricing policies or the pricing policies of our competitors; and
- general economic conditions

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

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

Our common shares began trading on the over-the-counter bulletin board in August 2009, and we obtained approval to list and trade our shares on The NASDAQ Stock Market LLC's NASDAQ Capital Market on July 16, 2015. On November 16, 2016, we began trading our shares on the NASDAQ Stock Market LLC's NASDAQ Global Market. Trading of our common stock has in the past been highly volatile with low trading volume and an active trading market for shares of our common stock may not develop. In such case, selling shares of our common stock may be difficult because the limited trading market for our shares could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume. Further, the market price of shares of our common stock could continue to fluctuate substantially. Additionally, if we are not able to maintain our listing on NASDAQ, then our common stock will again be quoted for trading on an over-the-counter quotation system and may be subject to more significant fluctuations in stock price and trading volume and large bid and ask price spreads.

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

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

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

Our amended and restated certificate of incorporation and our bylaws, as amended, contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. We are also governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. The foregoing and other provisions in our amended and restated certificate of incorporation, our bylaws, as amended, and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

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

As a result of the acquisitions of FBR, Wunderlich and magicJack, the historical net operating losses that may be utilized in future taxable years depend on the Company's actual taxable income in future years. Some of the historical net operating losses from the acquisition of these companies are limited since these companies had a more than 50% ownership shift in accordance with Section 382 of the Internal Revenue Code of 1986, as amended. At December 31, 2018, the Company did not provide a valuation allowance for certain net operating losses if it is more-likely-than-not that future taxable earnings will be sufficient to realize the tax benefits. To the extent that the Company is unable to utilize such net operating losses, it may have a material adverse effect on our financial condition and results of operations.

***The tax benefits, grants and other incentives available to us require us to continue to meet various conditions and may be terminated, repaid or reduced in the future, which could increase our costs and taxes.***

The Israeli government currently provides major tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. In recent years, the Israeli Government has reduced the benefits available under these programs and the Israeli Governmental authorities have indicated that the government may in the future further reduce, seek repayment or eliminate the benefits of those programs. magicJack currently takes advantage of these programs. There is no assurance that we will continue to meet the conditions of such benefits and programs or that such benefits and programs would continue to be available to us in the future. If we fail to meet the conditions of such benefits and programs or if they are terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition.

***Changes in tax laws or regulations, or to interpretations of existing tax laws or regulations, to which we are subject could adversely affect our financial condition and cash flows.***

We are subject to taxation in the United States and in some foreign jurisdictions. Our financial condition and cash flows are impacted by tax policy implemented at each of the federal, state, local and international levels. We cannot predict whether any changes to tax laws or regulations, or to interpretations of existing tax laws or regulations, will be implemented in the future or whether any such changes would have a material adverse effect on our financial condition and cash flows. However, future changes to tax laws or regulations, or to interpretations of existing tax laws or regulations, could increase our tax burden or otherwise adversely affect our financial condition and cash flows.

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

generate sufficient cash to pay dividends, or that we will pay dividends in future periods.

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

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

***Significant disruptions of information technology systems, breaches of data security, or unauthorized disclosures of sensitive data or personally identifiable information could adversely affect our business, and could subject us to liability or reputational damage.***

Our business is increasingly dependent on critical, complex, and interdependent information technology (“IT”) systems, including Internet-based systems, some of which are managed or hosted by third parties, to support business processes as well as internal and external communications. The size and complexity of our IT systems make us potentially vulnerable to IT system breakdowns, malicious intrusion, and computer viruses, which may result in the impairment of our ability to operate our business effectively.

In addition, our systems and the systems of our third-party providers and collaborators are potentially vulnerable to data security breaches which may expose sensitive data to unauthorized persons or to the public. Such data security breaches could lead to the loss of confidential information, trade secrets or other intellectual property, or could lead to the public exposure of personal information (including personally identifiable information) of our employees, customers, business partners, and others. In addition, the increased use of social media by our employees and contractors could result in inadvertent disclosure of sensitive data or personal information, including but not limited to, confidential information, trade secrets and other intellectual property.

Any such disruption or security breach, as well as any action by us or our employees or contractors that might be inconsistent with the rapidly evolving data privacy and security laws and regulations applicable within the United States and elsewhere where we conduct business, could result in enforcement actions by U.S. states, the U.S. Federal government or foreign governments, liability or sanctions under data privacy laws that protect personally identifiable information, regulatory penalties, other legal proceedings such as but not limited to private litigation, the incurrence of significant remediation costs, disruptions to our development programs, business operations and collaborations, diversion of management efforts and damage to our reputation, which could harm our business and operations. Because of the rapidly moving nature of technology and the increasing sophistication of cybersecurity threats, our measures to prevent, respond to and minimize such risks may be unsuccessful.

In addition, the European Parliament and the Council of the European Union adopted a comprehensive general data privacy regulation (“GDPR”) in 2016 to replace the current European Union Data Protection Directive and related country-specific legislation. The GDPR took effect in May 2018 and governs the collection and use of personal data in the European Union. The GDPR, which is wide-ranging in scope, will impose several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and confidentiality of the personal data, data breach notification and the use of third party processors in connection with the processing of the personal data. The GDPR also imposes strict rules on the transfer of personal data out of the European Union to the United States, enhances enforcement authority and imposes large penalties for noncompliance, including the potential for fines of up to €20 million or 4% of the annual global revenues of the infringer, whichever is greater.

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

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

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

***Our results of operations after the acquisitions of FBR, Wunderlich and magicJack may be affected by factors different from those that affected our independent results of our operations.***

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

***The combined company may fail to realize the anticipated benefits of our acquisitions of FBR, Wunderlich and magicJack.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our website infrastructure and the website infrastructure of UOL may be vulnerable to computer viruses, hacking or similar disruptive problems caused by customers, other Internet users, other connected Internet sites, and the interconnecting telecommunications networks. Such problems caused by third-parties could lead to interruptions, delays or cessation of service to the customers of the UOL products and services. Inappropriate use of the Internet by



third-parties could also potentially jeopardize the security of confidential information stored in our computer system, which may deter individuals from becoming customers. There can be no assurance that any such measures would not be circumvented in future. Dealing with problems caused by computer viruses or other inappropriate uses or security breaches may require interruptions, delays or cessation of service to customers, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Our dial-up Internet access services of our UOL business also rely on their compatibility with other third-party systems, products and features, including operating systems. Incompatibility with third-party systems and products could adversely affect our ability to deliver our services or a user's ability to access our services and could also adversely impact the distribution channels for our services. Our dial-up Internet access services are dependent on dial-up modems and an increasing number of computer manufacturers, including certain manufacturers with whom we

have distribution relationships, do not pre-load their new computers with dial-up modems, requiring the user to separately acquire a modem to access our services. We cannot assure you that, as the dial-up Internet access market declines and new technologies emerge, we will be able to continue to effectively distribute and deliver our services.

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

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

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

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

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

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

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

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

GACP I, L.P. and GACP II, L.P., both direct lending funds of which our wholly owned subsidiary GACP is the general partner, may invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by the fund. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (i.e., the owners of first priority liens) generally will be entitled to receive proceeds from any realization of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, the fund) will be entitled to receive proceeds from the realization of the collateral securing such debt. There can be no assurances that the proceeds, if any,

from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that the fund owns secured debt that is junior to other secured debt, the fund may lose the value of its entire investment in such secured debt.

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

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

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

*The market in which magicJack participates is highly competitive and if we do not compete effectively, our operating results may be harmed by loss of market share and revenues.*

The telecommunications industry is highly competitive. We face intense competition from traditional telephone companies, wireless companies, cable companies and alternative voice communication providers and manufacturers of communication devices.

The principal competitors for our products and services include the traditional telephone service providers, such as AT&T, Inc., CenturyLink, Inc. and Verizon Communications Inc., which provide telephone service using the public switched telephone network. Certain of these traditional providers have also added, or are planning to add, broadband telephone services to their existing telephone and broadband offerings. We also face, or expect to face, competition from cable companies, such as Cablevision Systems Corp., Charter Communications, Inc., Comcast Corporation, Cox Communications, Inc. and Time Warner Cable (a division of Time Warner Inc.), which offer broadband telephone services to their existing cable television and broadband offerings. Further, wireless providers, including AT&T Mobility, Inc., Sprint Corporation, T-Mobile USA Inc., and Verizon Wireless, Inc. offer services that some customers may prefer over wireline-based service. In the future, as wireless companies offer more minutes at lower prices, their services may become more attractive to customers as a replacement for broadband or wireline-based phone service.

We face competition on magicJack device sales from Apple, Samsung, Motorola and other manufacturers of smart phones, tablets and other hand held wireless devices. Also, we compete against established alternative voice communication providers, such as Vonage, Google Voice, Ooma, and Skype, which is another non-interconnected voice provider, and may face competition from other large, well-capitalized Internet companies. In addition, we compete with independent broadband telephone service providers.

Increased competition may result in our competitors using aggressive business tactics, including providing financial incentives to customers, selling their products or services at a discount or loss, offering products or services similar to our products and services on a bundled basis at a discounted rate or no charge, announcing competing products or services combined with aggressive marketing efforts, and asserting intellectual property rights or claims, irrespective of their validity.

We believe that some of our existing competitors may choose to consolidate or may be acquired in the future. Additionally, some of our competitors may enter into alliances or joint ventures with each other or establish or strengthen relationships with other third parties. Any such consolidation, acquisition, alliance, joint venture or other relationship could adversely affect our ability to compete effectively, lead to pricing pressure, our loss of market share and could harm our business, results of operations and financial condition.

*magicJack may face difficulty in attracting new customers, and if we fail to attract new customers, our business and results of operations may suffer.*

Most traditional wireline and wireless telephone service providers and cable companies are substantially larger and better capitalized than us and have the advantage of a large existing customer base. Because most of our customers are purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract customers away from their existing providers. In addition, these competitors could focus their substantial financial resources to develop competing technology that may be more attractive to potential customers than what we offer. Our competitors' financial resources may allow them to offer services at prices below cost or even for free in order to maintain and gain market share or otherwise improve their competitive positions.

magicJack's competitors also could use their greater financial resources to offer broadband telephone service with more attractive service packages that include on-site installation and more robust customer service. In addition, because of the other services that our competitors provide, they may choose to offer broadband telephone service as part of a bundle that includes other products, such as video, high speed Internet access and wireless telephone service, which we do not offer at the present time. This bundle may enable our competitors to offer broadband telephone service at prices with which we may not be able to compete or to offer functionality that integrates broadband telephone service with their other offerings, both of which may be more desirable to consumers. Any of these competitive factors could make it more difficult for us to attract and retain customers to our products, and cause us to lower our prices in order to compete and reduce our market share and revenues.

***magicJack may be unable to obtain enough phone numbers in desirable area codes to meet demand, which may adversely affect our ability to attract new customers and our results of operations.***

magicJack's operations are subject to varying degrees of federal and state regulation. It currently allows customers to select the area code for their desired phone number from a list of available area codes in cities throughout much of the United States. This selection may become limited if we are unable to obtain phone numbers, or a sufficient quantity of phone numbers, including certain area codes, due to exhaustion and consequent shortages of numbers in those area codes, restrictions imposed by federal or state regulatory agencies, or a lack of telephone numbers made available to us by third parties. If we are unable to provide our customers with a nationwide selection of phone numbers, or any phone numbers at all, in all geographical areas and is unable to obtain telephone numbers from another alternative source, or is required to incur significant new costs in connection with obtaining such phone numbers, our relationships with current and future customers may be damaged, causing a shortfall in expected revenue, increased customer attrition, and an inability to attract new customers. As a result, our business, results of operations and financial condition could be materially and adversely affected.

***If magicJack's services are not commercially accepted by customers, our revenues and results of operations will suffer.***

Our success in deriving a substantial amount of revenues from magicJack's broadband telephone service offering sold to consumers and businesses relies on the commercial acceptance of our offering from consumers and business. Although we currently sell our services to a number of customers, it cannot be certain that future customers will find our services attractive. If customer demand for our services declines could have a material adverse effect on our business, results of operations and financial condition.

***If magicJack is unable to retain its existing customers, our revenue and results of operations would be adversely affected.***

We offer magicJack services pursuant to a subscriber agreement that ranges generally from one month to five years in duration and allows our customers to gain access to our servers for telephone calls. Our customers do not have an obligation to renew their subscriber agreement after their initial term period expires, and these agreements may not be renewed on the same or on more profitable terms. As a result, our ability to grow depends in part on retaining customers for renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the fees imposed by government entities, the prices of comparable services offered by our competitors or reductions in our customers' spending levels. If our customers do not renew their services, renew on less favorable terms, or do not purchase additional functionality, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.



*The market for magicJack's services and products is characterized by rapidly changing technology and our success will depend on our ability to enhance our existing service and product offerings and to introduce new services and products on a timely and cost effective basis.*

The market for magicJack's services and products is characterized by rapidly changing enabling technology, frequent enhancements and evolving industry standards. Our continued success depends on our ability to accurately anticipate the evolution of new products and technologies and to enhance our existing products and services. Historically, several factors have deterred consumers and businesses from using voice over broadband service, including security concerns, inconsistent quality of service, increasing broadband traffic and incompatible software products. If we are unable to continue to address those concerns and foster greater consumer demand for our products and services, our business and results of operations will be adversely affected.

Our success also depends on our ability to develop and introduce innovative new magicJack services and products that gain market acceptance. We may not be successful in selecting, developing, manufacturing and marketing new products and services or enhancing existing products and services on a timely basis. We may experience difficulties with software development, industry standards, design or marketing that could delay or prevent our development, introduction or implementation of new products, services and enhancements. The introduction of new products or services by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing service offerings could render our existing or future services obsolete. If our services become obsolete due to wide-spread adoption of alternative connectivity technologies, our ability to generate revenue may be impaired. In addition, any new markets into which we attempt to sell our services, including new countries or regions, may not be receptive. If we are unable to successfully develop or acquire new products or services, enhance our existing products or services to anticipate and meet customer preferences or sell magicJack products and services into new markets, our revenue and results of operations would be adversely affected.

***We may be unsuccessful in protecting our proprietary rights or may have to defend ourselves against claims of infringement, which could impair or significantly affect our business.***

Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop technology that is similar ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that it regards as proprietary. Third parties may also design around our proprietary rights, which may render our protected products less valuable, if the design around is favorably received in the marketplace. In addition, if any our products or the technology underlying our products is covered by third-party patents or other intellectual property rights, we could be subject to various legal actions.

We cannot assure you that our products do not infringe intellectual property rights held by others or that they will not in the future. Third parties may assert infringement, misappropriation, or breach of license claims against us from time to time. Such claims could cause us to incur substantial liabilities and to suspend or permanently cease the use of critical technologies or processes or the production or sale of major products. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, misappropriation, or other claims. Any such litigation could result in substantial costs and diversion of our resources, which in turn could materially adversely affect our business and financial condition. Moreover, any settlement of or adverse judgment resulting from such litigation could require us to obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we attempt to design around the technology at issue or to find another provider of suitable alternative technology to permit it to continue offering applicable software or product solutions, our continued supply of software or product solutions could be disrupted or our introduction of new or enhanced software or products could be significantly delayed.

***magicJack's products must comply with various domestic and international regulations and standards and failure to do so could have an adverse effect on our business, operating results and financial condition.***

magicJack's products must comply with various domestic and international regulations and standards defined by regulatory agencies. If it does not comply with existing or evolving industry standards and other regulatory requirements or if we fail to obtain in a timely manner any required domestic or foreign regulatory approvals or certificates, we will not be able to sell our products where these standards or regulations apply, which may harm our business. Moreover, distribution partners or customers may require us, or we may otherwise deem it necessary or advisable, to alter our products to address actual or anticipated changes in the regulatory environment. Our inability to alter our products to address these requirements and any regulatory changes could have a material adverse effect on our business, financial condition, and operating results.

*magicJack's emergency and E911 calling services are different from those offered by traditional wireline telephone companies and may expose us to significant liability.*

While we do not believe that we are currently subject to regulatory requirements to provide such capability, we provide our customers with emergency calling services/E911 calling services ("E911") that significantly differ from the emergency calling services offered by traditional wireline telephone companies. Those differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need. Traditional wireline telephone companies route emergency calls from a fixed location over a dedicated infrastructure directly to an emergency services dispatcher at the public safety answering point ("PSAP") in the caller's area. Generally, the dispatcher automatically receives the caller's phone number and actual location information. Because the magicJack devices are portable or nomadic, the only way we can determine to which PSAP to route an emergency call, and the only location information that our E911 service can transmit to a dispatcher at a PSAP is the information that our customers have registered with us. A customer's registered location may be different from the customer's actual location at the time of the call because customers can use their magicJack devices to make calls almost anywhere a broadband connection is available. Significant delays may occur in a customer updating its registered location information, and in applicable databases being updated and new routing implemented once a customer has provided new information. If our customers encounter delays when making emergency services calls and any inability to route emergency calls properly, or of the answering point to automatically recognize the caller's location or telephone number, such delays can have devastating consequences. Customers may, in the future, attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result.

Traditional phone companies also may be unable to provide the precise location or the caller's telephone number when their customers place emergency calls. However, traditional phone companies are covered by federal legislation exempting them from liability for failures of emergency calling services, and magicJack is not afforded such protection. In addition, magicJack has lost, and may in the future lose, existing and prospective customers because of the limitations inherent in our emergency calling services. Additionally, service interruptions from our third-party providers could cause failures in our customers' access to E911 services. Finally, we may decide not to offer customers E911 services at all. Any of these factors could cause us to lose revenues, incur greater expenses or cause our reputation or financial results to suffer.

***State and local governments may seek to impose E911 fees.***

Many state and local governments have sought to impose fees on customers of VoIP providers, or to collect fees from VoIP providers, to support implementation of E911 services in their area. The application of such fees with respect to magicJack users and us is not clear because various statutes and regulations may not cover our services, we do not bill our customers monthly, nor do we bill customers at all for telecommunication services. We may also not know the end user's location because the magicJack devices and services are nomadic. Should a regulatory authority require payment of money from us for such support, we may be required to develop a mechanism to collect fees from our customers, which may or may not be satisfactory to the entity requesting us to be a billing agent. We cannot predict whether the collection of such additional fees or limitations on where our services are available would impact customers' interest in purchasing our products.

In settlement of litigation, magicJack agreed that it would, at least once a year, issue bills for 911 emergency calling services to each user who has access to 911 services through their magicJack services, and who has provided a valid address in a U.S. jurisdiction that provides access to 911 services and which is legally empowered to impose 911 charges on such users in accordance with applicable state and/or local law.

Certain E911 regulatory authorities have asserted or may assert in the future that we are liable for damages, including end user assessed E911 taxes, surcharges and/or fees, for not having billed and collected E911 fees from our customers in the past or in the future. If a jurisdiction were to prevail in such claims, the decision could have a material adverse effect on our financial condition and results of operations.

***We may decide to end magicJack's emergency and E911 calling services for its Core Consumer business in the future, which may affect our revenues and expose us to significant liability.***

Although we currently make available emergency and E911 services to all of our users, we do not believe that it is required by regulations to do so for magicJack's Core Consumer business. We may, in the future, decide to discontinue providing such services for magicJack's Core Consumer business. Discontinuing such services may adversely affect customer demand, may result in fines by the Federal Communications Commission ("FCC") and may affect our revenues.

***Increases in credit card processing fees and high chargeback costs would increase our operating expenses and adversely affect our results of operations, and an adverse change in, or the termination of, magicJack's relationship with any major credit card company would have a severe, negative impact on our business.***

A significant number of magicJack's customers purchase its products through magicJack's website and pay for its products and services using credit or debit cards. The major credit card companies or the issuing banks may increase the fees that they charge for transactions using their cards. An increase in those fees would require us to either increase the prices we charge for our products, or suffer a negative impact on our profitability, either of which could adversely affect our business, financial condition and results of operations.

We have potential liability for chargebacks associated with the transactions we process, or that are processed on our behalf by merchants selling our products. If a customer returns his or her magicJack products at any time, or claims that magicJack's product was purchased fraudulently, the returned product is "charged back" to magicJack or its bank, as applicable. If magicJack or its sponsoring banks are unable to collect the chargeback from the merchant's account, or, if the merchant refuses or is financially unable, due to bankruptcy or other reasons, to reimburse the merchant's bank for the chargeback, we bear the loss for the amount of the refund paid.

We are vulnerable to credit card fraud, as we sell magicJack products directly to customers through our website. Card fraud occurs when a customer uses a stolen card (or a stolen card number in a card-not-present-transaction) to purchase merchandise or services. In a traditional card-present transaction, if the merchant swipes the card, receives authorization for the transaction from the card issuing bank and verifies the signature on the back of the card against the paper receipt signed by the customer, the card issuing bank remains liable for any loss. In a fraudulent card-not-present transaction, even if the merchant or magicJack receive authorization for the transaction, magicJack or the merchant are liable for any loss arising from the transaction. Because sales made directly from magicJack's website are card-not-present transactions, we are more vulnerable to customer fraud. We are also subject to acts of consumer fraud by customers that purchase magicJack products and services and subsequently claim that such purchases were not made.

In addition, as a result of high chargeback rates or other reasons beyond our control, the credit card companies or issuing bank may terminate their relationship with magicJack, and there are no assurances that it will be able to enter into a new credit card processing agreement on similar terms, if at all. Upon a termination, if magicJack's credit card processor does not assist it in transitioning its business to another credit card processor, or if magicJack were not able to obtain a new credit card processor, the negative impact on our liquidity likely would be significant. The credit card processor may also prohibit magicJack from billing discounts annually or for any other reason. Any increases in the magicJack's credit card fees could adversely affect our results of operations, particularly if we elect not to raise our service rates to offset the increase. The termination of magicJack's ability to process payments on any major credit or debit card, due to high chargebacks or otherwise, would significantly impair our ability to operate our business.

***Flaws in magicJack's technology and systems could cause delays or interruptions of service, damage our reputation, cause us to lose customers.***

Our service could be disrupted by problems with magicJack technology and systems, such as malfunctions in our software or other facilities and overloading of our servers. Our customers could experience interruptions in the future as a result of these types of problems. Interruptions could in the future cause us to lose customers, which could adversely affect our revenue and profitability. In addition, because magicJack's systems and our customers' ability to use our services are Internet-dependent, our services may be subject to "hacker attacks" from the Internet, which could have a significant impact on our systems and services. If service interruptions adversely affect the perceived reliability of our service, it may have difficulty attracting and retaining customers and our brand reputation and growth may suffer.

***We depend on overseas manufacturers, and for certain magicJack products, third-party suppliers, and our reputation and results of operations would be harmed if these manufacturers or suppliers fail to meet magicJack's requirements.***

The manufacture of the magicJack devices is conducted by a manufacturing company in China, and certain parts are produced in Taiwan and Hong Kong. These manufacturers supply substantially all of the raw materials and provide all facilities and labor required to manufacture our products. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, either due to actions of the manufacturers; earthquakes, typhoons, tsunamis, fires, floods, or other natural disasters; or the actions of their respective governments, we would be unable to manufacture our products until replacement contract manufacturing services could be obtained. To qualify a new contract manufacturer, familiarize it with the magicJack products, quality standards and other requirements, and commence volume production is a costly and time-consuming process. We cannot assure you that we would be able to establish alternative manufacturing relationships on acceptable terms or in a timely manner that would not cause disruptions in our supply. Any interruption in the manufacture of our products would be likely to result in delays in shipment, lost sales and revenue and damage to our reputation in the market, all of which would harm our business and results of operations. In addition, while the magicJack contract obligations with its contract manufacturer in China is denominated in U.S. dollars, changes in currency exchange rates could impact our suppliers and increase our prices.

***We rely on independent retailers to sell the magicJack devices, and disruption to these channels would harm our business.***

Because we sell a majority of the magicJack devices, other devices and certain services to independent retailers, we are subject to many risks, including risks related to their inventory levels and support for magicJack's products. In particular, magicJack's retailers maintain significant levels of our products in their inventories. If retailers attempt to

reduce their levels of inventory or if they do not maintain sufficient levels to meet customer demand, our sales could be negatively impacted.

Many of the retailers who sell magicJack products also sell products offered by its competitors. If these competitors offer the retailers more favorable terms, those retailers may de-emphasize or decline to carry magicJack's products. In the future, we may not be able to retain or attract a sufficient number of qualified retailers. If we are unable to maintain successful relationships with retailers or to expand our distribution channels, our business will suffer.

To continue this method of sales, we will have to allocate resources to train vendors, systems integrators and business partners as to the use of our products, resulting in additional costs and additional time until sales by such vendors, systems integrators and business partners are made feasible. Our business depends to a certain extent upon the success of such channels and the broad market acceptance of our products. To the extent that our channels are unsuccessful in selling our products, our revenues and operating results will be adversely affected.

Many factors out of our control could interfere with our ability to market, license, implement or support magicJack products with any of our channels, which in turn could harm our business. These factors include, but are not limited to, a change in the business strategy of magicJack's channels, the introduction of competitive product offerings by other companies that are sold through one or more of its channels, potential contract defaults by one or more of its channels, bankruptcy of one or more distribution channel, or changes in ownership or management of one or more of its channels. For example, in February 2015, RadioShack Corporation, one of magicJack's retail customers, filed a voluntary petition in bankruptcy court. magicJack was owed \$1.3 million by RadioShack which it did not collect and sales to RadioShack were ceased to limit exposure. magicJack made limited sales to the RadioShack entity that emerged from the bankruptcy proceedings and terminated its relationship with that entity effective as of October 27, 2016. Some of magicJack's competitors may have stronger relationships with its channels than magicJack does or offer more favorable terms with respect to their products, and magicJack has limited control, if any, as to whether those channels implement its products rather than its competitors' products or whether they devote resources to market and support its competitors' products rather than its offerings. If magicJack fails to maintain relationships with these channels, fails to develop new channels, fails to effectively manage, train, or provide incentives to existing channels or if these channels are not successful in their sales efforts, sales of magicJack's products may decrease and our operating results would suffer.

***We may not be able to maintain adequate customer care, which could adversely affect our ability to grow and cause our financial results to be negatively impacted.***

We consider our offshore customer care to be critically important to acquiring and retaining customers. A portion of our customer care for magicJack products is provided by third parties located in Costa Rica and the Philippines. This approach exposes us to the risk that we may not maintain service quality, control or effective management within these business operations. The increased elements of risk that arise from conducting certain operating processes in some jurisdictions could lead to an increase in reputational risk. Interruptions in our customer care caused by disruptions at our third-party facilities may cause us to lose customers, which could adversely affect our revenue and profitability. We could face a high turnover rate among our customer service providers. We intend to have our customer care provider hire and train customer care representatives in order to meet the needs of our customer base. If they are unable to hire, train and retain sufficient personnel to provide adequate customer care, we may experience slower growth, increased costs and higher levels of customer attrition, which would adversely affect our business and results of operations.

***If we are unable to maintain an effective process for local number portability provisioning, our business may be negatively impacted.***

We comply with requests for local number portability from our customers at the end of the 30-day trial period. Local number portability means that our customers can retain their existing telephone numbers when subscribing to magicJack's services, and would in turn allow former customers to retain their telephone numbers should they subscribe to another carrier. All carriers, including interconnected VoIP service providers, must complete the porting process within one business day. If we are unable to maintain the technology to expedite porting our customers' numbers, demand for our services may be reduced, we may be subject to regulatory enforcement activity, and this will adversely affect our revenue and profitability.

***If we cannot continue to obtain key switching elements from magicJack's primary competitors on acceptable terms, we may not be able to offer our local voice and data services on a profitable basis, if at all.***

We will not be able to provide our local voice and data services on a profitable basis, if at all, unless we are able to obtain key switching elements from some of magicJack's primary competitors on acceptable terms. To offer local voice and data services in a market, we must connect our servers with other carriers in a specific market. This relationship is governed by an interconnection agreement or carrier service agreement between us and that carrier. magicJack has such agreements with Verizon, AT&T, XO Communications Services and CenturyLink in a majority of its markets. If we are unable to continue these relationships, enter into new interconnection agreements or carrier service agreements with additional carriers in other markets or if these providers liquidate or file for bankruptcy, our business and profitability may suffer.



*Regulatory initiatives may continue to reduce the maximum rates we are permitted to charge long distance service providers for completing calls by our customers to customers served by our servers.*

The rates that we charge and is charged by service providers for terminating calls by their customers to customers served by its servers, and for transferring calls by its customers onto other carriers, cannot exceed rates determined by regulatory authorities. In 2011, the FCC adopted an order fundamentally overhauling its existing intercarrier compensation (“ICC”) rules, which govern payments between carriers for exchange traffic. This order established a new ICC regime that will result in the elimination of virtually all terminating switched access charges and reciprocal compensation payments over a transition period that will end in 2020. The reductions resulting from these new ICC rules have affected and will continue to affect our revenues and results of operations.

***Regulation of broadband telephone services are developing and therefore uncertain; and future legislative, regulatory or judicial actions could adversely impact our business and expose us to liability.***

The current regulatory environment for broadband telephone services is developing and therefore uncertain. The United States and other countries have begun to assert regulatory authority over broadband telephone service and are continuing to evaluate how broadband telephone service will be regulated in the future. Both the application of existing rules to us and our competitors and the effects of future regulatory developments are uncertain. Future legislative, judicial or other regulatory actions could have a negative effect on our business. If its VoIP telephony service or our other magicJack products and services become subject to the rules and regulations applicable to telecommunications providers, if current broadband telephone service rules are expanded and applied to us, or if additional rules and regulations applicable specifically to broadband telephone services are adopted, we may incur significant compliance costs, and we may have to restructure our service offerings, exit certain markets or start charging for our services at least to the extent of regulatory costs or requirements, any of which could cause our services to be less attractive to customers. We are faced, and may continue to face, difficulty collecting such charges from our customers and/or carriers, and collecting such charges may cause us to incur legal fees. We may be unsuccessful in collecting all of the regulatory fees owed to us. The imposition of any such additional regulatory fees, charges, taxes and regulations on VoIP communications services could materially increase our costs and may limit or eliminate our competitive pricing advantages.

Regulatory and governmental agencies may determine that we should be subject to rules applicable to certain broadband telephone service providers or seek to impose new or increased fees, taxes, and administrative burdens on broadband telephone service providers. We also may change our product and service offerings in a manner that subjects us to greater regulation and taxation. Such obligations could include requirements that we contribute directly to federal or state Universal Service Funds. We may also be required to meet various disability access requirements, number portability obligations, and interception or wiretapping requirements, such as the Communications Assistance for Law Enforcement Act. The imposition of such regulatory obligations or the imposition of additional federal, state or local taxes on our services could increase our cost of doing business and limit our growth.

We offer our magicJack products and services in other countries, and therefore could also be subject to regulatory risks in each such foreign jurisdiction, including the risk that regulations in some jurisdictions will prohibit us from providing our services cost-effectively or at all, which could limit our growth. Currently, there are several countries where regulations prohibit us from offering service. In addition, because customers can use our services almost anywhere that a broadband Internet connection is available, including countries where providing broadband telephone service is illegal, the governments of those countries may attempt to assert jurisdiction over us. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, expose us to significant liability and regulation and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties.

*The success of our business relies on customers' continued and unimpeded access to broadband service. Providers of broadband services may be able to block our services or charge their customers more for also using our services, which could adversely affect our revenue.*

Our customers must have broadband access to the Internet in order to use our service. Providers of broadband access, some of whom are also competing providers of voice services, may take measures that affect their customers' ability to use our service, such as degrading the quality of the data packets they transmit over their lines, giving those packets low priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for also using our services.

In 2015, the FCC adopted net neutrality rules that prohibited broadband providers from: 1) blocking legal content, applications, services, or non-harmful devices; 2) impairing or degrading lawful Internet traffic on the basis of content, applications, services, or non-harmful devices; 3) engaging in paid prioritization by favoring some lawful Internet traffic over other lawful traffic in exchange for consideration of any kind or by prioritizing content and services of their affiliates; and 4) unreasonably interfering with or unreasonably disadvantaging the ability of consumers to select, access, and use the lawful content, applications, services, or devices of their choosing; or of edge providers to make lawful content, applications, services, or devices available to consumers. In doing so, the FCC reclassified broadband Internet access - the retail broadband service mass-market customers buy from cable, phone, and wireless providers - as a telecommunications service regulated under Title II of the Communications Act of 1934, although the FCC agreed to forbear from many requirements of Title II. Significantly, these rules applied equally to fixed and mobile broadband networks.

After the FCC's new net neutrality rules went into effect in June 2015, various broadband providers and their trade associations challenged the FCC's decision before the U.S. Court of Appeals for the D.C. Circuit. In June 2016, the D.C. Circuit issued its decision upholding the FCC's rules. The D.C. Circuit also denied various petitions seeking rehearing en banc of the court's decision. Various parties have sought review by the United States Supreme Court of the D.C. Circuit's decision, which remains pending. We cannot predict the outcome of these proceedings.

In December 2017, the FCC adopted its "Restoring Internet Freedom Order," which: 1) restored the classification of broadband Internet access services as unregulated information services, ending Title II regulation of these services; 2) eliminated the FCC's three "bright-line" net neutrality rules; 3) eliminated the FCC's "general conduct" rule; and 4) adopted a new transparency rule. The "Restoring Internet Freedom Order" has been published in the Federal Register and will take effect on April 23, 2018, except for the new transparency rule, which will not take effect until approved by the Office of Management and Budget.

Multiple parties have filed petitions seeking judicial review of the “Restoring Internet Freedom Order,” which have been consolidated and assigned for hearing by the United States Court of Appeals for the Ninth Circuit (which may be asked to transfer the case to the D.C. Circuit). We cannot predict how these challenges will be resolved. However, a decision by a court upholding the FCC decision to eliminate legal prohibitions against broadband providers blocking, throttling, or otherwise degrading the quality of our data packets or attempting to extract additional fees from us or our customers could adversely impact our business. A court also could find that the FCC lacks legal authority to regulate broadband services, which could prevent a future FCC from adopting new rules to govern the operating practices of broadband providers.

***We may be bound by certain FCC regulations relating to the provision of E911 service, and if we fail to comply with FCC regulations requiring us to provide E911 emergency calling services, we may be subject to fines or penalties.***

In 2005, the FCC issued regulations requiring interconnected voice-over broadband providers to provide E911 services and to notify customers of any differences between the broadband telephone service emergency calling services and those available through traditional telephone providers and obtain affirmative acknowledgments from customers of those notifications. While we do not believe the FCC’s rules currently apply to our business, the FCC could, however, extend or modify its rules to obligate us to provide E911 services according to its specific requirements. A proposal to broaden the scope of its E911 requirements was under consideration by the FCC. According to the FCC’s rules, certain broadband communications companies must offer enhanced emergency calling services (E911) to all customers located in areas where E911 service is available from their traditional wireline telephone company. E911 service allows emergency calls from customers to be routed directly to an emergency dispatcher in a customer’s registered location and gives the dispatcher automatic access to the customer’s telephone number and registered location information.

Limitations on our ability to provide E911 service or a requirement to comply with potential new mandates of the FCC could materially limit our growth and have a material adverse effect on our profitability. We could be subjected to various fines and forfeitures. FCC rulings could also subject us to greater regulation in some states.

***Regulatory rulings and/or carrier disputes could affect the manner in which we interconnect and exchange traffic with other providers and the costs and revenues associated with doing so.***

We exchange calls with other providers pursuant to applicable law and interconnection agreements and other carrier contracts that define the rates, terms, and conditions applicable to such traffic exchange. The calls we exchange originate from and terminate to a customer that uses a broadband Internet connection to access our services and are routed using telephone numbers of the customer’s choosing. There is uncertainty, however, with respect to intercarrier compensation for such traffic while rules continue to be challenged in various courts. The FCC Report and Order

issued in November 2011 has asserted its jurisdiction over such traffic. Various state commissions have also issued rulings with respect to the exchange of different categories of traffic under interconnection agreements. To the extent that another provider were to assert that the traffic we exchanges with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), or if other providers from whom we currently collect compensation for the exchange of such traffic refuse to pay it going forward, we may need to seek regulatory relief to resolve such a dispute. Given the recent changes to the intercarrier compensation regime, we cannot guarantee that the outcome of any proceeding would be favorable, and an unfavorable ruling could adversely affect the amounts we collect and/or pay to other providers in connection with the exchange of our traffic. The FCC clarified in January 2015 that its VoIP symmetry rule does not require a CLEC or its VoIP provider partner to provide the physical last-mile facility to the VoIP provider's end user customers in order to provide the functional equivalent of end office switching, and thus for the CLEC to be eligible to assess access charges for this service. The ruling confirms that the VoIP symmetry rule is technology and facilities neutral and applies regardless of whether a CLEC's VoIP partner is a facilities-based or over-the-top VoIP provider. However, in November 2016, the U.S. Court of Appeals for the D.C. Circuit vacated the FCC's ruling. We cannot predict how the D.C. Circuit's decision will affect the amounts we collect and/or pay to other providers in connection with the exchange of our traffic.

***Server failures or system breaches could cause delays or adversely affect our service quality, which may cause us to lose customers and revenue.***

In operating our servers, we may be unable to connect and manage a large number of customers or a large quantity of traffic at high speeds. Any failure or perceived failure to achieve or maintain high-speed data transmission could significantly reduce demand for our magicJack services and adversely affect our operating results. In addition, computer viruses, break-ins, human error, natural disasters and other problems may disrupt our servers. The system security and stability measures we implement may be circumvented in the future or otherwise fail to prevent the disruption of our services. The costs and resources required to eliminate computer viruses and other security problems may result in interruptions, delays or cessation of services to our customers, which could decrease demand, decrease our revenue and slow our planned expansion.

***Hardware and software failures, delays in the operation of magicJack's computer and communications systems or the failure to implement system enhancements may harm our business.***

Our success depends on the efficient and uninterrupted operation of magicJack's software and communications systems. A failure of our servers could impede the delivery of services, customer orders and day-to-day management of our business and could result in the corruption or loss of data. Despite any precautions we may take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins and similar events at our various facilities could result in interruptions in the flow of data to our servers and from our servers to our customers. In addition, any failure by our computer environment to provide our required telephone communications capacity could result in interruptions in our service. Additionally, significant delays in the planned delivery of system enhancements and improvements, or inadequate performance of the systems once they are completed, could damage our reputation and harm our business. Finally, long-term disruptions in infrastructure caused by events such as natural disasters, the outbreak of war, the escalation of hostilities, and acts of terrorism (particularly involving cities in which it has offices) could adversely affect our business. Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may be inadequate, or may not be available in the future on reasonable terms, or at all. We cannot assure you that this policy will cover any claim against us for loss of data or other indirect or consequential damages and defending a lawsuit, regardless of its merit, could be costly and divert management's attention. In addition to potential liability, if we experience interruptions in our ability to supply our services, our reputation could be harmed and we could lose customers.

***Our magicJack business is subject to privacy and online security risks, including security breaches, and we could be liable for such breaches of security. If we are unable to protect the privacy of our customers making calls using our service, or information obtained from our customers in connection with their use or payment of our services, in violation of privacy or security laws or expectations, we could be subject to significant liability and damage to our reputation.***

Although we have developed systems and processes that are designed to protect customer information and prevent fraudulent transactions, data loss and other security breaches, such systems and processes may not be sufficient to prevent fraudulent transactions, data loss and other security breaches. Failure to prevent or mitigate such breaches may adversely affect our operating results.

Customers may believe that using our services to make and receive telephone calls using their broadband connection could result in a reduction of their privacy, as compared to traditional wireline carriers. Additionally, our website, [www.magicJack.com](http://www.magicJack.com), serves as an online sales portal. We currently obtain and retain personal information about our website users in connection with such purchases. In addition, we obtain personal information about our customers as part of their registration to use our products and services. Federal, state and foreign governments have enacted or may enact laws or regulations regarding the collection and use of personal information.

Our business involves the storage and transmission of users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. An increasing number of websites, including several other Internet companies, have recently disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their sites. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users. A party that is able to circumvent our security measures could misappropriate magicJack's or its users' proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

Currently, a significant number of our users authorize it to bill their credit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect transaction data being breached or compromised. Non-technical means, for example, actions by a suborned employee, can also result in a data breach.

Possession and use of personal information in conducting our business subjects it to legislative and regulatory burdens that could require notification of data breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. We may incur expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

Under payment card rules and magicJack's contracts with its card processors, if there is a breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow payment card industry security standards, even if there is no compromise of customer information, we could incur significant fines or lose our ability to give customers the option of using payment cards to fund their payments or pay their fees. If we were unable to accept payment cards, our business would be seriously damaged.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. These issues are likely to become more difficult as we expand the number of places where we operate. Security breaches, including any breach by us or by parties with which we have commercial relationships that result in the unauthorized release of magicJack's users' personal information, could damage our reputation and expose us to a risk of loss or litigation and liability. Our insurance policies carry coverage limits that may not be adequate to reimburse it for losses caused by security breaches.

magicJack's users, as well as those of other prominent Internet companies, have been and will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to magicJack's users' computers. These emails appear to be legitimate emails sent by magicJack, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential information via email or download a program. Despite our efforts to mitigate "spoof" and "phishing" emails through product improvements and user education, "spoof" and "phishing" remain a serious problem that may damage our brands, discourage use of our websites, and increase our costs.

We have a stringent privacy policy covering the information we collect from our customers and have established security features to protect this information. However, our security measures may not prevent security breaches. We may need to expend resources to protect against security breaches or to address problems caused by breaches. If unauthorized third parties were able to penetrate our security and gain access to, or otherwise misappropriate, our customers' personal information or be able to access their telephone calls, it could harm our reputation and, therefore, our business and magicJack could be subject to liability. Such liability could include claims for misuse of personal information or unauthorized use of credit cards. These claims could result in litigation, our involvement in which, regardless of the outcome, could require us to expend significant financial resources. Internet privacy is a rapidly changing area and we may be subject to future requirements and legislation that are costly to implement and negatively impact our results.





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

Our senior notes include: (a) 6.875% Notes due September 30, 2023 (“6.875% 2023 Notes”) with an aggregate principal amount of approximately \$100.1 million; (b) 7.375% Notes due May 31, 2023 (“7.375% 2023 Notes”) with an aggregate principal amount of approximately \$100.0 million, (c) 7.25% Notes due December 31, 2027 (7.25% 2027 Notes”) with an aggregate principal amount of \$80.5 million; (d) 7.50% due May 31, 2027 (7.50% 2027 Notes”) with an aggregate principal amount of \$60.4 million; (e) 7.50% Notes due October 31, 2021 (“7.50% 2021 Notes”) with an aggregate principal amount of \$28.8 million; and (f) additional \$97.4 million in aggregate principal balance of the 7.375% Notes, 7.25% 2027 Notes, 7.50% 2027 Notes and 7.50% 2021 Notes which we issued pursuant to At Market Issuance Sales Agreements we entered into with B. Riley FBR. In December 2018, the Company entered into a new At Market Issuance Sales Agreement with B. Riley FBR pursuant to which the Company may sell from time to time, at the Company’s option, up to the aggregate principal of \$75.0 million of the 6.875% 2023 Notes, 7.375% 2023 Notes, 7.25% 2027 Notes, 7.50% 2027 Note and 7.50% 2021 Notes. At December 31, 2018, the Company had \$75.0 million available for offer and sale pursuant to the December 2018 At Market Issuance Sales Agreement. On December 19, 2018, BRPI Acquisition Co LLC (“BRPAC”), a Delaware corporation, UOL, and YMAX Corporation, a Delaware corporation (collectively, the “Borrowers”), indirect wholly owned subsidiaries of ours, in the capacity of borrowers, entered into a credit agreement with the Banc of California, N.A. in the capacity as agent and lender and with the other lenders party thereto (the “BRPAC Credit Agreement”). Under the BRPAC Credit Agreement, we borrowed \$80.0 million due December 19, 2023. Pursuant to the terms of the BRPAC Credit Agreement, we may request additional optional term loans in an aggregate principal amount of up to \$10.0 million at any time prior to the first anniversary of the agreement date. On February 1, 2019, the Borrowers entered into the First Amendment to Credit Agreement and Joinder with City National Bank as a new lender in which the new lender extended to Borrowers the additional \$10.0 million as further discussed in Note 11 to the accompanying financial statements. In April 2017, we amended our Credit Agreement with Wells Fargo Bank (the “Wells Fargo Credit Agreement”) to increase our retail liquidation line of credit from \$100 million to \$200 million. The terms of such indebtedness contain various restrictions and covenants regarding the operation of our business, including, but not limited to, restrictions on our ability to merge or consolidate with or into any other entity. We may also secure additional debt financing in the future in addition to our current debt. Our level of indebtedness generally could adversely affect our operations and liquidity, by, among other things: (i) making it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because we may not have sufficient cash flows to make our scheduled debt payments; (ii) causing us to use a larger portion of our cash flows to fund interest and principal payments, thereby reducing the availability of cash to fund working capital, capital expenditures and other business activities; (iii) making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities or other strategic transactions, and to react to changes in market or industry conditions; and (iv) limiting our ability to borrow additional monies in the future to fund working capital, capital expenditures, acquisitions and other general corporate purposes as and when needed, which could force us to suspend, delay or curtail business prospects, strategies or operations. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our operations. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. These alternative strategies may not be affected on satisfactory terms, if at all, and they may not yield sufficient funds to make required payments on our indebtedness. If, for any reason, we are unable to meet our debt service and repayment obligations, we would be in default under the terms of

the agreements governing our debt, which could allow our creditors at that time to declare certain outstanding indebtedness to be due and payable or exercise other available remedies, which may in turn trigger cross acceleration or cross default rights in other agreements. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

***Our senior notes are unsecured and therefore are effectively subordinated to any secured indebtedness that we currently have or that we may incur in the future.***

Our senior notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, our senior notes are effectively subordinated to any secured indebtedness that we or our subsidiaries have currently outstanding or may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. The indenture governing our senior notes does not prohibit us or our subsidiaries from incurring additional secured (or unsecured) indebtedness in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness and may consequently receive payment from these assets before they may be used to pay other creditors, including the holders of our senior notes.

***Our senior notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

Our senior notes are obligations exclusively of the Company and not of any of our subsidiaries. None of our subsidiaries is a guarantor of our senior notes, and our senior notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Therefore, in any bankruptcy, liquidation or similar proceeding, all claims of creditors (including trade creditors) of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of our senior notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, our senior notes will be structurally subordinated to all indebtedness and other liabilities (including trade payables) of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. The indenture governing our senior notes does not prohibit us or our subsidiaries from incurring additional indebtedness in the future. In addition, future debt and security agreements entered into by our subsidiaries may contain various restrictions, including restrictions on payments by our subsidiaries to us and the transfer by our subsidiaries of assets pledged as collateral.

***The indenture under which our senior notes were issued contains limited protection for holders of our senior notes.***

The indenture under which our senior notes were issued offers limited protection to holders of our senior notes. The terms of the indenture and our senior notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on the holders of our senior notes. In particular, the terms of the indenture and our senior notes do not place any restrictions on our or our subsidiaries' ability to:

issue debt securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to our senior notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to our senior notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to our senior notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to our senior notes with respect to the assets of our subsidiaries;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities subordinated in right of payment to our senior notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture does not include any protection against certain events, such as a change of control, a leveraged recapitalization or “going private” transaction (which may result in a significant increase of our indebtedness levels), restructuring or similar transactions. Furthermore, the terms of the indenture and our senior notes do not protect holders of our senior notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity. Also, an event of default or acceleration under our other indebtedness would not necessarily result in an event of default under our senior notes.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of our senior notes may have important consequences for the holders of our senior notes, including making it more difficult for us to satisfy our obligations with respect to our senior notes or negatively affecting the trading value of our senior notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and our senior notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of our senior notes.

***An increase in market interest rates could result in a decrease in the value of our senior notes.***

In general, as market interest rates rise, notes bearing interest at a fixed rate decline in value. Consequently, if the market interest rates increase after our senior notes were purchased, the market value of our senior notes may decline. We cannot predict the future level of market interest rates.

***An active trading market for our senior notes may not develop, which could limit the market price of our senior notes or the ability of our senior note holders to sell them.***

The 7.25% 2027 Notes are quoted on Nasdaq under the symbol “RILYG,” the 7.50% 2027 Notes are quoted on Nasdaq under the symbol “RILYZ,” the 7.375% 2023 Notes are quoted on Nasdaq under the symbol “RILYH,” the 6.875% 2023 Notes are quoted on Nasdaq under the symbol “RILYI,” and the 7.50% 2021 Notes are quoted on Nasdaq under the symbol “RILYL.” We cannot provide any assurances that an active trading market will develop for our senior notes or that our senior note holders will be able to sell their senior notes. If the senior notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. Accordingly, we cannot assure our senior note holders that a liquid trading market will develop for our senior notes, that our senior note holders will be able to sell our senior notes at a particular time or that the price our senior note holders receive when they sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for our senior notes may be harmed. Accordingly, our senior note holders may be required to bear the financial risk of an investment in our senior notes for an indefinite period of time.

***We may issue additional notes.***

Under the terms of the indenture governing our senior notes, we may from time to time without notice to, or the consent of, the holders of our senior notes, create and issue additional notes which will be equal in rank to our senior notes. We will not issue any such additional notes unless such issuance would constitute a “qualified reopening” for U.S. federal income tax purposes.

***The rating for the 7.25% 2027 Notes, 7.375% 2023 Notes or 6.875% 2023 Notes could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency.***

We have obtained a rating for the 7.25% 2027 Notes, 7.375% 2023 Notes and 6.875% 2023 Notes. Ratings only reflect the views of the issuing rating agency or agencies and such ratings could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency. A rating is not a recommendation to purchase, sell or hold the 7.25% 2027 Notes, 7.375% 2023 Notes or 6.875% 2023 Notes. Ratings do not reflect market prices or suitability of a security for a particular investor and the rating of the 7.25% 2027 Notes, 7.375% 2023 Notes or 6.875% 2023 Notes may not reflect all risks related to us and our business, or the structure or market value of the 7.25% 2027 Notes, 7.375% 2023 Notes or 6.875% 2023 Notes. We may elect to issue other securities for which we may seek to obtain a rating in the future. If we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the market value of the 7.25% 2027 Notes, 7.375% 2023 Notes or 6.875% 2023 Notes.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Our headquarters are located in Woodland Hills, California in a leased facility. The following table sets forth the location and use of each of our properties, all of which are leased as of December 31, 2018.

<b>Location</b>	<b>Use</b>
Woodland Hills, California	Headquarters; Accounting, Information Technology and Human Resources offices; Appraisal, Auction and Liquidation and Principal Investments offices - United Online
Chicago, Illinois	Appraisal, Capital Markets offices
Dallas, Texas	Appraisal, Auction & Liquidation, Capital Markets
Needham, Massachusetts	Appraisal offices
Winston-Salem, North Carolina	Appraisal offices
New York, New York	Appraisal, Capital Markets, Wealth Management, and Legal offices
Sydney, Australia	Auction & Liquidation offices
Arlington, Virginia	Capital Markets offices
Atlanta, Georgia	Capital Markets offices
Auburn, Alabama	Capital Markets offices
Bakersfield, California	Capital Markets offices
Baltimore, Maryland	Capital Markets offices
Beachwood, Ohio	Capital Markets offices
Boston, Massachusetts	Capital Markets offices
Brighton, Michigan	Capital Markets offices
Charlotte, North Carolina	Capital Markets offices
Costa Mesa, California	Capital Markets offices
Denver, Colorado	Capital Markets offices
Dubuque, Iowa	Capital Markets offices
East Lansing, Michigan	Capital Markets offices
Evergreen, Colorado	Capital Markets offices
Fort Lauderdale, Florida	Capital Markets offices
Franklin, Tennessee	Capital Markets, and Principal Investments offices - magicJack
Glen Allen, Virginia	Capital Markets offices
Irvine, California	Capital Markets offices
Houston, Texas	Capital Markets offices
Lafayette, Louisiana	Capital Markets offices
Los Angeles, California	Capital Markets offices
Memphis, Tennessee	Capital Markets offices
Miami, Florida	Capital Markets offices
Nashville, Tennessee	Capital Markets offices



New Canaan, Connecticut	
Norwalk, Connecticut	Capital Markets offices
Orlando, Florida	Capital Markets offices
Palatine, Illinois	Capital Markets offices
Parsippany, New Jersey	Capital Markets offices
Phoenix, Arizona	Capital Markets offices
Plymouth, Michigan	Capital Markets offices
San Francisco, California	Capital Markets offices
St. Charles, Illinois	Capital Markets offices
St. Louis, Missouri	Capital Markets offices
Tampa, Florida	Capital Markets offices
Tulsa, Oklahoma	Capital Markets offices
West Palm Beach, Florida	Capital Markets offices, and Principal Investments offices - magicJack
Wilton, Connecticut	Capital Markets offices
Alpharetta, Georgia	Principal Investments offices - magicJack
Netanya, Israel	Principal Investments offices - magicJack
Plano, Texas	Principal Investments offices - magicJack
Warsaw, Poland	Principal Investments offices - magicJack
Munich, Germany	Retail offices
Hyderabad, India	Principal Investments offices - United Online

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

### Item 3. LEGAL PROCEEDINGS

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. In particular, the Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. The Company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. In view of the number and diversity of claims against our company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. Notwithstanding this uncertainty, the Company does not believe that the results of these claims are likely to have a material effect on its financial position or results of operations.

On June 17, 2018, B. Riley Financial, Inc. (the “Company” or “B. Riley”) entered into certain agreements pursuant to which B. Riley agreed to provide certain debt and equity funding and other support in connection with the acquisition (the “Acquisition”) by Vintage Rodeo Parent, LLC (the “Vintage Parent”), of Rent-A-Center, Inc. (“Rent-A-Center”), contemplated by that certain merger agreement dated as of June 17, 2018, by and among Vintage Parent, Vintage Rodeo Acquisition, Inc. a wholly owned subsidiary of Vintage Parent (the “Merger Sub” or the “Borrower”), and Rent-A-Center (the “Merger Agreement”).

In connection therewith, B. Riley and Vintage RTO, L.P., an affiliate of Vintage Parent (“Vintage Merger Guarantor”), entered into a Limited Guarantee dated as of June 17, 2018 (the “Limited Guarantee”), in favor of Rent-A-Center, pursuant to which B. Riley and Vintage Merger Guarantor (together, the “Merger Guarantors”) agreed to guarantee, jointly and severally, to Rent-A-Center the payment, performance and discharge of all of the liabilities and obligations of Vintage Parent and Merger Sub under the Merger Agreement when required in accordance with the Merger Agreement (the “Guaranteed Obligations”), including without limitation, (i) termination fees in the amount of \$126.5 million due to Rent-A-Center if the Merger Agreement is properly terminated (the “Termination Fee”); and (ii) reimbursement and indemnification obligations when required (collectively, the “Guarantee Obligations”), provided, that the liability under the Limited Guarantee shall not exceed \$128.5 million.

In connection with the execution of the Limited Guarantee, the Company entered into a Mutual Indemnity/Contribution Agreement, dated as of June 17, 2018 (the “Mutual Indemnity Agreement”), with the Vintage Merger Guarantor and Samjor Family, LP (collectively, the “Vintage Indemnity Parties”). Under the Mutual Indemnity Agreement, the Vintage Guarantors agreed, jointly and severally, to indemnify and hold harmless B. Riley and its affiliates from damages and liabilities arising out of the Guarantee Obligations, other than those caused B. Riley’s failure to fund under their debt or equity commitments.

On December 18, 2018, Rent-A-Center purported to terminate the Merger Agreement because the end date of the agreement was allegedly not extended prior to December 17, 2018 by Vintage Parent. Rent-A-Center delivered notice of such termination to Vintage Parent, and notified Vintage Parent of its obligation under the terms of the Merger Agreement to pay Rent-A-Center the Termination Fee within three business days.

On December 18, 2018, Vintage Capital Management, LLC, an affiliate of Vintage Parent (“Vintage Capital”), delivered a letter to Rent-A-Center stating that Rent-A-Center’s purported termination of the Merger Agreement is invalid, that it believes the Merger Agreement remains in effect. On December 21, 2018, Vintage Capital filed a complaint in the Court of Chancery of the State of Delaware (the “Court”) challenging Rent-A-Center’s purported termination of the Merger Agreement and demand for payment of the Termination Fee. The relief sought by Vintage Capital includes declaratory judgments that the Merger Agreement has not been terminated and remains in full force and effect, that Rent-A-Center has breached its obligations under the Merger Agreement and is not excused from failing to comply with its obligations thereunder and that the Termination Fee is an unenforceable penalty.

On December 28, 2018, Rent-A-Center provided each of B. Riley and the Vintage Merger Guarantors with a written request under the Limited Guarantee (a “Performance Demand”), to promptly, and in any event within ten (10) Business Days, pay to Rent-A-Center the Guaranteed Obligations (including the Termination Fee) in full.

On December 30, 2018, B. Riley filed a motion in the Court to intervene in the above referenced case filed by Vintage Capital pursuant to which B. Riley is seeking declaratory judgments, among other things, that the parties agreed to extend the End Date under the Merger Agreement and that Rent-A-Center is estopped from terminating the Merger Agreement, that Rent-A-Center has breached the Merger Agreement and its obligations of good faith and fair dealing in connection with consummating the Merger, and that the Termination Fee is an unenforceable penalty. B. Riley is also seeking an award of costs and reasonable attorneys’ fees and such other further relief as the Court finds equitable and appropriate.

At a hearing held on December 31, 2018, the Court stated that it would grant a temporary restraining order to preserve the status quo, which order would prohibit Rent-A-Center from engaging in certain transactions pending an expedited trial on the merits. On January 3, 2019, the Court granted B. Riley’s motion to intervene in the Vintage Capital case and on January 7, 2019, the Court granted a temporary restraining order restricting Rent-A-Center from engaging in certain transactions prior to the trial on the merits scheduled for February 11, 2019. On February 11th and 12th, a trial was held in Delaware, post-trial briefs were filed on February 22, 2019 and March 1, 2019. A post-trial hearing has been scheduled for March 11, 2019. The Company believes that it is reasonably possible that the Court will rule in favor of the Performance Demand. The amount of possible loss is not estimable; however, the range of loss could be from \$0 to \$128.5 million.

On August 11, 2017, a putative class action lawsuit titled *Freedman v. magicJack VocalTec Ltd. et al.*, Case 9-17-cv-80940, was filed against magicJack and its Board of Directors in the United States District Court for the Southern District of Florida. The complaint alleged claims against magicJack and the members of its Board of Directors as well as two former members for violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, arising from proxy statements issued in connection with magicJack's April 19, 2017 shareholders meeting and magicJack's July 31, 2017 shareholders meeting that allegedly misrepresented material facts concerning the "true value" of Broadsmart Global, Inc. and its future prospects in order that the individual defendants (the Board members) could entrench themselves on magicJack's Board and extract unwarranted compensation in connection with their attempt to sell the company. In January 2018, the plaintiff filed an Amended Complaint. On February 16, 2018, magicJack and all of the individual defendants filed a motion to dismiss the Amended Complaint. The plaintiff filed his opposition to the motion to dismiss on April 2, 2018, and defendants' reply was filed on April 19, 2018. The court issued an order dismissing the amended complaint without prejudice on August 9, 2018. The plaintiff filed an amended complaint, and on August 20, 2018, magicJack filed a motion to dismiss the second amended complaint. On November 21, 2018, the court issued an order granting the motion to dismiss with prejudice. The plaintiff has filed Notice of Appeal with the U.S. Court of Appeals for the 11th Circuit, and, on January 30, 2019, filed a brief with the appeals court. On February 7, 2019, the court dismissed the appeal because appellant failed to file an appendix within the time period specified by the rules. On February 19, the plaintiff filed a motion to reinstate the appeal, which was returned unfiled because the proposed appendix was not compliant. In the event the plaintiff successfully files a motion to reinstate the appeal, the Company intends to object to the request. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

In June 2018, Galilee Acquisition LLC f/k/a Sutton View Acquisition LLC ("GAL") filed a complaint, served the following month, (case No.:50-2018-CA-007976-XXXX-MB) in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against magicJack Vocaltec Ltd. alleging a claim for negligent misrepresentation. The complaint alleges that magicJack provided false, material information to the plaintiff concerning its business, including information related to the operations, revenue projections, profit projections and growth forecast of Broadsmart. It alleges that the plaintiff relied on the information provided in determining whether to pursue acquiring magicJack and to incur the cost of conducting due diligence. The suit seeks an unspecified amount of damages. magicJack disputes GAL's claims and intends to vigorously defend the action. magicJack filed a motion to dismiss on September 4, 2018, which remains pending. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

On January 5, 2017, complaints filed in November 2015 and May 2016 naming MLV & Co. ("MLV"), a broker-dealer subsidiary of FBR, as a defendant in putative class action lawsuits alleging claims under the Securities Act, in connection with the offerings of Miller Energy Resources, Inc. ("Miller") have been consolidated. The Master Consolidated Complaint, styled *Gaynor v. Miller et al.*, is pending in the United States District Court for the Eastern District of Tennessee, and, like its predecessor complaints, continues to allege claims under Sections 11 and 12 of the Securities Act against nine underwriters for alleged material misrepresentations and omissions in the registration statement and prospectuses issued in connection with six offerings (February 13, 2013; May 8, 2013; June 28, 2013; September 26, 2013; October 17, 2013 (as to MLV only) and August 21, 2014) with an alleged aggregate offering price of approximately \$151.0 million. The plaintiffs seek unspecified compensatory damages and reimbursement of certain costs and expenses. In August 2017, the Court granted Defendant's Motion to Dismiss on Section 12 claims and found that the plaintiffs had not sufficiently alleged a corrective disclosure prior to August 6, 2015, when an SEC

civil action was announced. Defendants' answer was filed on September 25, 2017. Plaintiffs have filed motions for class certification and to remand the case to state court following a positive ruling in an unrelated case by the U.S. Supreme Court. Although MLV is contractually entitled to be indemnified by Miller in connection with this lawsuit, Miller filed for bankruptcy in October 2015 and this likely will decrease or eliminate the value of the indemnity that MLV receives from Miller.

In February 2017, certain former employees filed an arbitration claim with FINRA against WSI alleging misrepresentations in the recruitment of claimants to join WSI. Claimants also allege that WSI failed to support their mortgage trading business resulting in the loss of opportunities during their employment with WSI. Claimants are seeking \$10.0 million in damages. WSI has counterclaimed alleging that claimants misrepresented their process for doing business, particularly their capital needs, resulting in substantial losses to WSI. WSI believes the claimants' claims are meritless and intends to vigorously defend the action.

In March 2017, United Online, Inc. received a letter from PeopleConnect, Inc. (formerly, Classmates, Inc.) ("Classmates") regarding a notice of investigation received from the Consumer Protection Divisions of the District Attorneys' offices of four California counties ("California DAs"). These entities suggest that Classmates may be in violation of California codes relating to unfair competition, false or deceptive advertising, and auto-renewal practices. Classmates asserts that these claims are indemnifiable claims under the purchase agreement between United Online, Inc. and the buyer of Classmates. A tolling agreement with certain California District Attorneys has been signed and informal discovery and production is in process. At the present time, management believes the financial impact to the Company, if any, is not expected to be material.

In July 2017, an arbitration claim was filed with FINRA by Dominick & Dickerman LLC and Michael Campbell against WSI and Gary Wunderlich with respect to the acquisition by Wunderlich Investment Company, Inc. ("WIC") (the parent corporation of WSI) of certain assets of Dominick & Dominick LLC in 2015. The Claimants allege that respondents overvalued WIC so that the purchase price paid to the Claimants in shares of WIC stock was artificially inflated. The Statement of Claim includes claims for common law fraud, negligent misrepresentation, and breach of contract. Claimants are seeking damages of approximately \$8.0 million plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

In September 2017, Frontier State Bank ("Frontier") filed a lawsuit against Wunderlich Loan Capital Corp., a subsidiary of WIC ("WLCC"), seeking rescission of the purchase a residential mortgage in the amount of \$1.3 million. Vanguard Funding, LLC ("Vanguard") sold the mortgage to WLCC who then assigned its rights to Frontier. Shortly after closing, Frontier was advised that the mortgage had been previously pledged to another lender. In the lawsuit against WLCC, it is alleged that WLCC did not deliver the mortgage to Frontier with clear title. In September 2018, the matter was settled and general releases were exchanged.

#### **Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

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## **PART II**

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

#### **Stock Market and Other Information**

Our common stock is traded on the NASDAQ Global Market under the symbol: "RILY". From July 16, 2015 to November 15, 2016, our common stock was traded on the NASDAQ Capital Market under the symbol "RILY". Prior to July 16, 2015, our common stock was traded on the OTC Bulletin Board under the symbol "RILY" from November 7, 2014 to July 16, 2015.

As of March 4, 2019, there were approximately 176 holders of record of our Common Stock. This number does not include beneficial owners holding shares through nominees or in "street" name.

#### **Dividend Policy**

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. On March 5, 2019 we declared a regular dividend of \$0.08 per share which will be paid by us on or about March 28, 2019 to stockholders of record as of March 19, 2019. On November 5, 2018, we declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by us on November 27, 2018 to stockholders of record as of November 16, 2018. On August 2, 2018, we declared a regular dividend of \$0.08 per share and a special dividend of \$0.22 per share which was paid by us on August 29, 2018 to stockholders of record as of August 16, 2018. On May 7, 2018, we declared a regular dividend of \$0.08 per share and a special dividend of \$0.04 per share which was paid by us on June 5, 2018 to stockholders of record as of May 21, 2018. On March 7, 2018, we declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by us on April 3, 2018. During the years ended December 31, 2018 and 2017, we paid cash dividends of \$22.7 million and \$16.8 million on our common stock, respectively. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

***Share Performance Graph***

The following graph compares the cumulative total shareholder return on our common share with the cumulative total return on the Russell 2000 Index and a peer group index for the period from December 31, 2013 to December 31, 2018. The graph and table below assume that \$100 was invested on the starting date and dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance and should not be considered an indication of future performance.



As of December 31,	2013	2014	2015	2016	2017	2018
B. Riley Financial, Inc.	\$100	\$178	\$190	\$368	\$385	\$323
Russell 2000	\$100	\$104	\$98	\$117	\$132	\$116
Industry Peer Group	\$100	\$109	\$87	\$101	\$116	\$100

Our peer group index includes the following companies: Cowen Group, Inc.; JMP Group LLC; Oppenheimer Holdings Inc.; and Stifel Financial Corp. These companies were selected because their businesses and operations were comparable to ours throughout or for some portion of the five-year period presented in the chart above.

The information provided above under the heading “Share Performance Graph” shall not be considered “filed” for purposes of Section 18 of the Exchange Act or incorporated by reference in any filing under the Securities Act of 1933, as amended or the Exchange Act.

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data as of and for each of the five fiscal years ended December 31, 2018, and is derived from our Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018, are included elsewhere in this report. The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes thereto included elsewhere in this report.

**Consolidated Statement of Operations Data:****(Dollars in thousands, except share data)**

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Revenues:					
Services and fees	\$390,555	\$304,841	\$164,235	\$101,929	\$67,257
Interest income - Securities lending	31,798	17,028	—	—	—
Sale of goods	638	307	26,116	10,596	9,859
Total revenues	422,991	322,176	190,351	112,525	77,116
Operating expenses:					
Direct cost of services	51,580	55,501	40,857	29,049	23,466
Cost of goods sold	800	398	14,755	3,072	14,080
Selling, general and administrative expenses	293,682	213,008	82,127	58,322	44,453
Restructuring charge	8,506	12,374	3,887	—	2,548
Interest expense - Securities lending	23,039	12,051	—	—	—
Total operating expenses	377,607	293,332	141,626	90,443	84,547
Operating income (loss)	45,384	28,844	48,725	22,082	(7,431 )
Other income (expense):					
Interest income	1,326	420	318	17	12
Income (loss) from equity investments	7,986	(437 )	—	—	—
Interest expense	(33,393 )	(8,382 )	(1,996 )	(834 )	(1,262 )
Income (loss) before income taxes	21,303	20,445	47,047	21,265	(8,681 )
(Provision for) benefit from income taxes	(4,903 )	(8,510 )	(14,321 )	(7,688 )	2,886
Net income (loss)	16,400	11,935	32,726	13,577	(5,795 )
Net income attributable to noncontrolling interests	891	379	11,200	1,772	6
Net income (loss) attributable to B. Riley Financial, Inc.	\$15,509	\$11,556	\$21,526	\$11,805	\$(5,801 )
Basic earnings (loss) per share	\$0.60	\$0.50	\$1.19	\$0.73	\$(0.60 )

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Diluted earnings (loss) per share	\$0.58	\$0.48	\$1.17	\$0.73	\$(0.60 )
Weighted average basic shares outstanding	25,937,305	23,181,388	18,106,621	16,221,040	9,612,154
Weighted average diluted shares outstanding	26,764,856	24,290,904	18,391,852	16,265,915	9,612,154

**Consolidated Balance Sheet Data:**

**(Dollars in thousands)**

	As of December 31,				
	2018	2017	2016	2015	2014
Cash and cash equivalents	\$179,440	\$132,823	\$112,105	\$30,012	\$21,600
Restricted cash	838	19,711	3,294	51	7,657
Securities and other investments owned, at fair value	273,577	145,360	16,579	25,543	17,955
Total assets	1,957,710	1,386,904	264,618	132,420	138,990
Total liabilities	1,699,050	1,121,058	114,226	23,100	41,911
Total equity	258,660	265,846	150,392	109,320	97,079

## **Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Annual Report on Form 10-K (this “Annual Report”) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “may,” “will,” “should,” “could,” “future,” “likely,” “predict,” “project,” “potential,” “continue,” “estimate” and similar expressions are generally intended to identify forward-looking statements, but are not exclusive means of identifying forward-looking statements in this Annual Report.*

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

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

*Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in “guarantee” based engagements; competition in the asset management business; potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our Auction and Liquidations business; the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential significant liability and harm to our reputation if we are required to pay the termination fee or other obligations of Vintage Capital in connection with the ongoing litigation with Rent-A-Center; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities or at-the-market offering as necessary; failure to comply with the terms of our credit agreements or senior notes; our ability to meet future capital requirements; our ability to realize the benefits of our completed acquisitions, including our ability to achieve anticipated opportunities and operating cost savings, and accretion to reported earnings estimated to result from completed and proposed acquisitions in the time frame expected by management or at all; our ability to promptly and effectively integrate our business with that of magicJack; the reaction to the magicJack acquisition of our and magicJack’s customers, employees and*

*counterparties; and the diversion of management time on acquisition-related issues. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise*

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

## **Overview**

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

B. Riley FBR, Inc. (“B. Riley FBR”) is a leading, full service investment bank providing financial advisory, corporate finance, research, securities lending and sales & trading services to corporate, institutional and high net worth individual clients. B. Riley FBR was formed in November 2017 through the merger of B. Riley & Co, LLC and FBR Capital Markets & Co.; the name of the combined broker dealer was subsequently changed to B. Riley FBR, Inc. FBR Capital Markets & Co. was acquired by B. Riley Financial in June 2017.

B. Riley Wealth Management, Inc provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments. B. Riley Wealth Management was formerly Wunderlich Securities, Inc., which the Company acquired on July 3, 2017 and changed its name in June 2018.

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

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

oB. Riley Wealth Management, a multi-family office practice and wealth management firm focused on the needs of ultra-high net worth individuals and families; and

Great American Capital Partners, LLC (“GACP”), the general partner of two private funds, GACP I, L.P. and GACP oII, L.P., both direct lending funds that provide senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

GlassRatner Advisory & Capital Group LLC (“GlassRatner”), a specialty financial advisory services firm we acquired on August 1, 2018, provides consulting services to shareholders, creditors and companies, including due diligence, fraud investigations, corporate litigation support, crisis management and bankruptcy services. The addition of GlassRatner, strengthens B. Riley’s diverse platform and compliments the restructuring services provided by B. Riley FBR.

Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients.

Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients.

We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. We acquired United Online, Inc. (“UOL”) on July 1, 2016 and magicJack VocalTec Ltd. (“magicJack”) on November 14, 2018 as part of our principal investment strategy.

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

magicJack is a Voice over IP (“VoIP”) cloud-based technology and services communications provider.

We are headquartered in Los Angeles with offices in major cities throughout the United States including New York, Chicago, Boston, Memphis, and Metro Washington D.C.

For financial reporting purposes we classify our businesses into four operating segments: (i) Capital Markets, (ii) Auction and Liquidation, (iii) Valuation and Appraisal and (iv) Principal Investments - United Online and magicJack.

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

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

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

Principal Investments - United Online and magicJack Segments. Our Principal Investments - United Online and magicJack segment consists of businesses which have been acquired primarily for attractive investment return characteristics. Currently, this segment includes UOL, through which we provide consumer Internet access, and magicJack, through which we provide VoIP communication services and related subscription services.

### *Recent Developments*

On June 17, 2018, B. Riley Financial, Inc. (the “Company” or “B. Riley”) entered into certain agreements pursuant to which B. Riley agreed to provide certain debt and equity funding and other support in connection with the acquisition (the “Acquisition”) by Vintage Rodeo Parent, LLC (the “Vintage Parent”), of Rent-A-Center, Inc. (“Rent-A-Center”), contemplated by that certain merger agreement dated as of June 17, 2018, by and among Vintage Parent, Vintage Rodeo Acquisition, Inc. a wholly owned subsidiary of Vintage Parent (the “Merger Sub” or the “Borrower”), and Rent-A-Center (the “Merger Agreement”).

In connection therewith, B. Riley and Vintage RTO, L.P., an affiliate of Vintage Parent (“Vintage Merger Guarantor”), entered into a Limited Guarantee dated as of June 17, 2018 (the “Limited Guarantee”), in favor of Rent-A-Center, pursuant to which B. Riley and Vintage Merger Guarantor (together, the “Merger Guarantors”) agreed to guarantee, jointly and severally, to Rent-A-Center the payment, performance and discharge of all of the liabilities and obligations of Vintage Parent and Merger Sub under the Merger Agreement when required in accordance with the Merger Agreement (the “Guaranteed Obligations”), including without limitation, (i) termination fees in the amount of \$126.5 million due to Rent-A-Center if the Merger Agreement is properly terminated (the “Termination Fee”); and (ii) reimbursement and indemnification obligations when required (collectively, the “Guarantee Obligations”), provided, that the liability under the Limited Guarantee shall not exceed \$128.5 million.

In connection with the execution of the Limited Guarantee, the Company entered into a Mutual Indemnity/Contribution Agreement, dated as of June 17, 2018 (the “Mutual Indemnity Agreement”), with the Vintage Merger Guarantor and Samjor Family, LP (collectively, the “Vintage Indemnity Parties”). Under the Mutual Indemnity Agreement, the Vintage Guarantors agreed, jointly and severally, to indemnify and hold harmless B. Riley and its affiliates from damages and liabilities arising out of the Guarantee Obligations, other than those caused B. Riley’s failure to fund under their debt or equity commitments.

On December 18, 2018, Rent-A-Center purported to terminate the Merger Agreement because the end date of the agreement was allegedly not extended prior to December 17, 2018 by Vintage Parent. Rent-A-Center delivered notice of such termination to Vintage Parent, and notified Vintage Parent of its obligation under the terms of the Merger Agreement to pay Rent-A-Center the Termination Fee within three business days.

On December 18, 2018, Vintage Capital Management, LLC, an affiliate of Vintage Parent (“Vintage Capital”), delivered a letter to Rent-A-Center stating that Rent-A-Center’s purported termination of the Merger Agreement is invalid, that it believes the Merger Agreement remains in effect. On December 21, 2018, Vintage Capital filed a complaint in the Court of Chancery of the State of Delaware (the “Court”) challenging Rent-A-Center’s purported termination of the Merger Agreement and demand for payment of the Termination Fee. The relief sought by Vintage Capital includes declaratory judgements that the Merger Agreement has not been terminated and remains in full force



and effect, that Rent-A-Center has breached its obligations under the Merger Agreement and is not excused from failing to comply with its obligations thereunder and that the Termination Fee is an unenforceable penalty.

On December 28, 2018, Rent-A-Center provided each of B. Riley and the Vintage Merger Guarantors with a written request under the Limited Guarantee (a "Performance Demand"), to promptly, and in any event within ten (10) Business Days, pay to Rent-A-Center the Guaranteed Obligations (including the Termination Fee) in full.

On December 30, 2018, B. Riley filed a motion in the Court to intervene in the above referenced case filed by Vintage Capital pursuant to which B. Riley is seeking declaratory judgments, among other things, that the parties agreed to extend the End Date under the Merger Agreement and that Rent-A-Center is estopped from terminating the Merger Agreement, that Rent-A-Center has breached the Merger Agreement and its obligations of good faith and fair dealing in connection with consummating the Merger, and that the Termination Fee is an unenforceable penalty. B. Riley is also seeking an award of costs and reasonable attorneys' fees and such other further relief as the Court finds equitable and appropriate.

At a hearing held on December 31, 2018, the Court stated that it would grant a temporary restraining order to preserve the status quo, which order would prohibit Rent-A-Center from engaging in certain transactions pending an expedited trial on the merits. On January 3, 2019, the Court granted B. Riley's motion to intervene in the Vintage Capital case and on January 7, 2019, the Court granted a temporary restraining order restricting Rent-A-Center from engaging in certain transactions prior to the trial on the merits scheduled for February 11, 2019. On February 11th and 12th, a trial was held in Delaware, post-trial briefs were filed on February 22, 2019 and March 1, 2019. A post-trial hearing has been scheduled for March 11, 2019. The Company believes that it is reasonably possible that the Court will rule in favor of the Performance Demand. The amount of possible loss is not estimable; however, the range of loss could be from \$0 to \$128.5 million.

On November 14, 2018, the Company entered into an agreement to acquire shares of National Holdings Corporation (“National Holdings”), a Nasdaq-listed issuer, from Fortress Biotech, Inc. for an aggregate purchase price totaling approximately \$22.9 million. The transaction was completed in two tranches. In the first tranche, which was completed in the fourth quarter of 2018, the Company acquired shares representing 24% of the total outstanding shares of National Holdings. The second tranche was contingent upon receipt of the approval of Financial Industry Regulatory Authority, Inc., which was obtained in the first quarter of 2019. As a result of the closing of the second tranche, the Company now holds 49% of the outstanding shares of National Holdings. The equity ownership in National Holdings is accounted for under the equity method of accounting.

BRPAC, UOL, and YMax (together with BRPAC and UOL, the “Borrowers”), our indirect wholly-owned subsidiaries, in their capacity of borrowers, entered the BRPAC Credit Agreement dated December 19, 2018, with the Banc of California, N.A. in its capacity as agent and lender and with the other lenders party thereto. Certain of the Borrowers’ U.S. subsidiaries are guarantors of all obligations under the BRPAC Credit Agreement and are parties to the BRPAC Credit Agreement in such capacity (collectively, the “Secured Guarantors”; and, together with the Borrowers, the “Credit Parties”). In addition, we and B. Riley Principal Investments, LLC, the parent corporation of BRPAC and our subsidiary, are guarantors of the obligations under BRPAC Credit Agreement pursuant to standalone guaranty agreements pursuant to which the shares of outstanding membership interests of the BRPAC are pledged as collateral. The obligations under the BRPAC Credit Agreement are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of the Credit Parties, including a pledge of (a) 100% of the equity interests of the Credit Parties, (b) 65% of the equity interests in United Online Software Development (India) Private Limited, a private limited company organized under the laws of India and (c) 65% of the equity interests in magicJack. The credit facilities under the BRPAC Credit Agreement consist of: (a) a term credit facility under which the Borrowers may borrow up to \$80.0 million on the closing date with a final maturity date of five years from the closing date; and (b) an optional accordion term loan credit facility under which the Borrowers may borrow up to \$10.0 million with a final maturity date of five years from the closing date. On February 1, 2019, the Borrowers entered into the First Amendment to Credit Agreement and Joinder with City National Bank as a new lender in which the new lender extended to Borrowers the additional \$10.0 million as further discussed in Note 11 to the accompanying financial statements. Borrowings under the BRPAC Credit Agreement are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity. The borrowings under the BRPAC Credit Agreement bear interest equal to the LIBOR plus a margin of 2.50% to 3.00% depending on the Borrowers’ consolidated total funded debt ratio as defined in the BRPAC Credit Agreement. The proceeds of the BRPAC Credit Agreement were used to refinance a portion of the purchase price of the recently closed acquisition of magicJack and to pay related costs. Borrowings under the BRPAC Credit Agreement will bear interest at a rate equal to (A) the LIBOR Rate for Eurodollar loans, plus (B) the applicable margin rate, which ranges from two and one-half percent (2.5%) to three percent (3.0%) per annum. Amounts outstanding under the Credit Facilities are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity.

On September 6, 2018, we entered into the Underwriting Agreement with B. Riley FBR, as representative of several underwriters named in the Underwriting Agreement, pursuant to which we agreed to sell to the underwriters up to an aggregate principal amount of \$87.0 million of 6.875% Senior Notes due in September 2023 (the “September 2023 Notes”), plus an additional \$13.1 million aggregate principal amount to cover underwriter overallotments. As of December 31, 2018, the Company sold approximately \$100.1 million of the September 2023 Notes. The September 2023 Notes were issued pursuant to the Indenture between us and U.S. Bank, National Association, as trustee. The

September 2023 Notes sold under the Underwriting Agreement were issued pursuant to a prospectus dated April 6, 2018, as supplemented by a prospectus supplement dated September 7, 2018, each filed with the SEC pursuant to the Company's effective Registration Statement on Form S-3 (File No. 333-223789), which was declared effective by the SEC on April 6, 2018.

During 2017 and 2018, we entered into a series of related At the Market Issuance Sales Agreements (the "Sales Agreements") with B. Riley FBR, Inc. governing an ongoing program of at-the-market sales of our senior notes. We filed prospectus supplements under which we sold the senior notes on June 28, 2017, December 19, 2017, April 25, 2018, June 5, 2018 and December 18, 2018. Each of these prospectus supplements was filed pursuant to an effective Registration Statement on Form S-3. In aggregate, we have sold senior notes having an aggregate principal balance of \$467.2 million under the Sales Agreements and related prospectus supplements. Our most recent Sales Agreement was entered into on December 18, 2018 (the "December 2018 Program"), and, under the related prospectus supplement, we may offer and sell up to \$75.0 million of the senior notes. As of December 31, 2018, we had \$75.0 million remaining availability under the December 2018 Program.

On April 18, 2018, the United States Bankruptcy Court for the District of Delaware issued an order (the “Order”) approving the sale of certain rights to the assets of The Bon-Ton Stores, Inc. and its affiliates (the “Debtors”) and granted certain other relief to GA Retail, Inc. (“GA”), an indirect wholly owned subsidiary of the Company, Tiger Capital Group, LLC (“Tiger”), and the indenture trustee (the “Indenture Trustee”; together with GA and Tiger, the “Joint Venture”) under the Second Lien Indenture (as defined in the Order). Among other things, the Order approved the Joint Venture’s right to act as the Debtors’ exclusive agent to conduct the sale of substantially all of the Debtors’ assets on the terms and conditions set forth in that certain agency agreement dated April 18, 2018 by and among the Debtors and the Joint Venture (the “Agency Agreement” and the related transactions, the “Bon-Ton Transactions”).

Pursuant to the Agency Agreement, the Joint Venture agreed to pay (a) a cash purchase price of approximately \$560.0 million (the “Cash Purchase Price”), which includes all amounts due and owing by the Debtors to the lenders under that certain debtor in possession financing facility, the cash amounts used to collateralize certain letters of credit and an amount to fund the payment of certain fees and expenses incurred by the Debtors’ professionals, (b) a credit bid of \$125.0 million, and (c) \$93.8 million to pay for certain administrative expenses of the Debtors as reflected in an agreed upon wind down budget. In exchange for such payments and the payment of certain expenses, the Joint Venture received the right to receive all proceeds (cash or otherwise) of any of the Debtors’ Assets except as otherwise set forth in the Agency Agreement (the “Proceeds”). The sale of inventory and certain of the assets of Bon-Ton through a going-out-of-business sale was completed on August 31, 2018. The Joint Venture continues to wind down the business activities of Bon-Ton and sale of certain real property, among other items, in accordance with the Agency Agreement.

To fund GA’s portion of the Cash Purchase Price, GA borrowed (i) \$300.0 million from Wells Fargo Bank, N.A. (“Wells Fargo Bank”) pursuant to an amended and restated consent dated April 19, 2018 to that certain credit agreement among GA, its affiliates and Wells Fargo Bank, as amended (the “Credit Agreement”), and (ii) approximately \$51.0 million from GACP II, L.P., a direct lending fund managed by GACP, an affiliate of GA and a wholly owned subsidiary of the Company. Each of these loans is to be repaid from the Proceeds after the payment of certain expenses incurred by the Joint Venture in connection with the sale. In connection with the borrowing from Wells Fargo Bank, the maximum borrowing limit under the Credit Agreement was increased solely for purposes of the Bon-Ton Transactions from \$200.0 million to \$300.0 million and reverted back to \$200.0 million upon repayment of the amounts borrowed in connection with the Bon-Ton Transactions. The amounts borrowed in connection with the Bon-Ton Transaction were fully repaid in the third quarter of 2018.

On January 12, 2018, we converted a loan receivable from bebe stores, inc. (“bebe”) in the amount of \$16.9 million in principal and accrued interest into 2,819,528 shares of common stock of bebe, representing a conversion price at \$6.00 per share. On January 12, 2018, the Company also purchased 500,000 shares of bebe common stock at \$6.00 per share of which 250,000 shares were newly issued common stock by bebe and 250,000 shares were purchased from the majority shareholder of bebe. In total, the Company acquired 3,319,528 shares of bebe common stock. In connection with such transactions, bebe fixed the size of its board of directors at five members of which two employees of the Company were newly appointed to the bebe board. At December 31, 2018, we had an ownership of approximately 30.1% of bebe’s outstanding common shares.

On November 9, 2017, we entered into an Agreement and Plan of Merger (the “magicJack Merger Agreement”) with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the Company (“Merger Sub”), and magicJack VocalTec Ltd., an Israeli corporation (“magicJack”), pursuant to which Merger Sub would merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Subject to the terms and conditions of the magicJack Merger Agreement, each outstanding share of magicJack converted into the right to receive \$8.71 in cash without interest, representing approximately \$143.1 million in aggregate merger consideration. The closing of the transaction was subject to the receipt of certain regulatory approvals and the satisfaction of other closing conditions. The acquisition of magicJack closed in November 2018.

*Results of Operations*

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

*Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***Consolidated Statements of Income****(Dollars in thousands)**

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$390,555	92.3 %	\$304,841	94.6 %
Interest income - Securities lending	31,798	7.5 %	17,028	5.3 %
Sale of goods	638	0.2 %	307	0.1 %
Total revenues	422,991	100.0%	322,176	100.0%
<b>Operating expenses:</b>				
Direct cost of services	51,580	12.2 %	55,501	17.2 %
Cost of goods sold	800	0.2 %	398	0.1 %
Selling, general and administrative expenses	293,682	69.4 %	213,008	66.1 %
Restructuring charge	8,506	2.0 %	12,374	3.8 %
Interest expense - Securities lending	23,039	5.4 %	12,051	3.7 %
Total operating expenses	377,607	89.3 %	293,332	91.0 %
Operating income	45,384	10.7 %	28,844	9.0 %
<b>Other income (expense):</b>				
Interest income	1,326	0.3 %	420	0.1 %
Income (loss) from equity investments	7,986	1.9 %	(437 )	(0.1 )%
Interest expense	(33,393 )	(7.9 )%	(8,382 )	(2.6 )%
Income before income taxes	21,303	5.0 %	20,445	6.4 %
Provision for income taxes	(4,903 )	(1.1 )%	(8,510 )	(2.6 )%
Net income	16,400	3.9 %	11,935	3.7 %
Net income attributable to noncontrolling interests	891	0.2 %	379	0.1 %
Net income attributable to B. Riley Financial, Inc.	\$15,509	3.7 %	\$11,556	3.6 %



## Revenues

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

	Year Ended December 31, 2018		Year Ended December 31, 2017		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and fees:						
Capital Markets segment	\$243,268	57.5 %	\$172,695	53.6 %	\$70,573	40.9 %
Auction and Liquidation segment	54,923	13.0 %	47,376	14.7 %	7,547	15.9 %
Valuation and Appraisal segment	38,705	9.2 %	33,331	10.3 %	5,374	16.1 %
Principal Investments - United Online and magicJack segment	53,659	12.7 %	51,439	16.0 %	2,220	4.3 %
Subtotal	390,555	92.3 %	304,841	94.6 %	85,714	28.1 %
Revenues - Sale of goods:						
Auction and Liquidation segment	63	0.0 %	3	0.0 %	60	n/m
Principal Investments - United Online and magicJack segment	575	0.1 %	304	0.1 %	271	89.1 %
Subtotal	638	0.2 %	307	0.1 %	331	107.8 %
Interest income - Securities lending:						
Capital Markets segment	31,798	7.5 %	17,028	5.3 %	14,770	86.7 %
Total revenues	\$422,991	100.0 %	\$322,176	100.0 %	\$100,815	31.3 %

n/m - Not applicable or not meaningful.

Total revenues increased \$100.8 million to \$423.0 million during the year ended December 31, 2018 from \$322.2 million during the year ended December 31, 2017. The increase in revenues during the year ended December 31, 2018 was primarily due to an increase in revenue from services and fees of \$85.7 million, an increase in revenue from interest income – securities lending of \$14.8 million and increase in revenue from sale of goods of \$0.3 million. The increase in revenue from services and fees of \$85.7 million in 2018 was primarily due to an increase in revenue of \$70.6 million in the Capital Markets segment, \$7.5 million in the Auction and Liquidation segment, \$5.4 million in the Valuation and Appraisal segment and \$2.2 million in the Principal Investments – United Online and magicJack segment.



Revenues from services and fees in the Capital Markets segment increased \$70.6 million, or 40.9% to \$243.3 million during the year ended December 31, 2018 from \$172.7 million during the year ended December 31, 2017. The increase in revenues was primarily due to an increase in revenue of \$25.4 million from investment banking fees, an increase in revenue of \$33.9 million from wealth management services, an increase in revenue of \$12.8 million from consulting fees as a result of the acquisition of GlassRatner on August 1, 2018, an increase of \$13.5 million from commissions and fees revenue from research, sales and trading and an increase of \$8.1 million of other revenues, offset by a decrease in revenues of \$23.1 million from trading gains. Included in the revenue from the Capital Markets segment during the year ended December 31, 2018 is full year revenue of FBR and Wunderlich, which the company acquired on June 1, 2017 and July 2, 2017, respectively.

Revenues from services and fees in the Auction and Liquidation segment increased \$7.5 million, or 15.9%, to \$54.9 million during the year ended December 31, 2018 from \$47.4 million during the year ended December 31, 2017. The increase in revenues of \$7.5 million was primarily due to an increase in revenues of \$5.8 million from services and fees from retail liquidation engagements and an increase in revenues of \$1.7 million from services and fees in our wholesale and industrial auction division.

Revenues from services and fees in the Valuation and Appraisal segment increased \$5.4 million, or 16.1%, to \$38.7 million during the year ended December 31, 2018 from \$33.3 million during the year ended December 31, 2017. The increase in revenues was primarily due to \$3.9 million increase related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors, \$1.3 million increase related to appraisal engagements where we perform valuations of intellectual property and business valuations, and \$0.2 million increase related to appraisal engagements where we perform valuations of machinery and equipment.

Revenues from services and fees in the Principal Investments - United Online and magicJack segment increased \$2.2 million to \$53.7 million during the year ended December 31, 2018 from \$51.4 million during the year ended December 31, 2017. Revenues from services and fees as a result of the acquisition of magicJack included in the segment for the period from November 14, 2018 (acquisition date) through December 31, 2018 were \$8.8 million. UOL services revenues primarily from customer paid accounts related to our Internet access and related subscription services decreased approximately \$3.8 million to \$35.4 million during the year ended December 31, 2018 from \$39.2 million during the year ended December 31, 2017. Advertising revenues from Internet display advertising and search related to our email and Internet access services decreased \$2.7 million to \$9.5 million during the year ended December 31, 2018 from \$12.2 million during the year ended December 31, 2017. Over the past several years revenues from UOL paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in UOL paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues from UOL continue to decline year over year.

**Sale of Goods, Cost of Goods Sold and Gross Margin**

	Year Ended December 31, 2018				Year Ended December 31, 2017			
	Principal		Total		Principal		Total	
Investments		Investments						
Auction –		Auction –						
and		and						
United		United						
Liquidat		Liquidat						
Online		Online						
Segment		Segment						
and		and						
magicJack		magicJack						
Segment		Segment						
Revenues - Sale of Goods	\$63	\$ 575	\$638	\$3	\$ 304	\$307		
Cost of goods sold	41	759	800	2	396	398		
Gross margin on services and fees	\$22	\$ (184 )	\$(162 )	\$1	\$ (92 )	\$(91 )		
Gross margin percentage	34.9%	(32.0 )%	(25.4)%	33.3%	(30.3 )%	(29.6)%		

Revenues from the sale of goods increased \$0.3 million, to \$0.6 million during the year ended December 31, 2018 from \$0.3 during the year ended December 31, 2017. Revenues from sale of goods was primarily attributable to the sale of mobile broadband devices from UOL that are sold in connection with the mobile broadband services and the sale of magicJack devices that are sold in connection with VoIP services. Cost of goods sold for the year ended December 31, 2018 was \$0.8 million, resulting in a gross margin of (\$0.2) million or (25.4) %. Cost of goods sold in 2017 was \$0.4 million resulting in a gross margin of (\$0.1) million or (29.6%) during the year ended December 31, 2017.

**Operating Expenses**

**Direct Costs of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the years ended December 31, 2018 and 2017 are as follows:

Year Ended December 31, 2018				Year Ended December 31, 2017			
Auction	Valuation	Principal	Total	Auction	Valuation	Principal	Total
and	and			and	and		

	<b>Liquidation</b>		<b>Appraisal</b>		<b>Investments</b>		<b>Liquidation</b>		<b>Appraisal</b>		<b>Investments</b>	
	<b>Segment</b>	<b>Segment</b>	<b>–</b>		<b>–</b>		<b>Segment</b>	<b>Segment</b>	<b>–</b>		<b>–</b>	
			<b>United</b>		<b>United</b>				<b>United</b>		<b>United</b>	
			<b>Online</b>		<b>Online</b>				<b>Online</b>		<b>Online</b>	
			<b>and</b>		<b>and</b>				<b>and</b>		<b>and</b>	
			<b>magicJack</b>		<b>magicJack</b>				<b>magicJack</b>		<b>magicJack</b>	
			<b>Segment</b>		<b>Segment</b>				<b>Segment</b>		<b>Segment</b>	
Revenues - Services and fees	\$54,923	\$ 38,705	\$ 53,659		\$ 53,659		\$47,376	\$ 33,331	\$ 51,439		\$ 51,439	
Direct cost of services	19,627	16,826	15,127		15,127		\$51,580	27,841	14,876	12,784	\$55,501	
Gross margin on services and fees	\$35,296	\$ 21,879	\$ 38,532		\$ 38,532		\$19,535	\$ 18,455	\$ 38,655		\$ 38,655	
Gross margin percentage	64.3 %	56.5 %	71.8 %		71.8 %		41.2 %	55.4 %	75.1 %		75.1 %	

Total direct costs decreased \$3.9 million, to \$51.6 million during the year ended December 31, 2018 from \$55.5 million during the year ended December 31, 2017. Direct costs of services decreased by \$8.2 million in the Auction and Liquidation segment, offset by an increase of \$2.3 million in the Principal Investments - United Online and magicJack segment and an increase of \$2.0 million in the Valuation and Appraisal segment. The decrease in direct costs in the Auction and Liquidation segment was primarily due to mix of engagement types performed during the year ended December 31, 2018 as compared to the year ended December 31, 2017. The increase in direct costs in the Principal Investments – United Online and magicJack segment was primarily as a result of the acquisition of magicJack on November 14, 2018. The increase in direct costs of services in the Valuation and Appraisal segment was primarily due to an increase in payroll and related expenses in 2018 as compared to the same period in 2017.

### ***Auction and Liquidation***

Gross margin in the Auction and Liquidation segment for services and fees increased to 64.3% of revenues during the year ended December 31, 2018, as compared to 41.2% of revenues during the year ended December 31, 2017. The increase in margin in the Auction and Liquidation segment is due to the mix of engagement types between guarantee and commission and fees engagements performed during the year ended December 31, 2018 as compared to the prior year period.

### ***Valuation and Appraisal***

Gross margins in the Valuation and Appraisal segment increased to 56.5% of revenues during the year ended December 31, 2018 as compared to 55.4% of revenues during the year ended December 31, 2017. The increase in margin in the Valuation and Appraisal segment is primarily due to impact of the increase in revenues during the year ended December 31, 2018 as compared to the same 2017 period.

***Principal Investments - United Online and magicJack***

Gross margins in the Principal Investments-United Online and magicJack segment decreased to 71.8% of revenues during the year ended December 31, 2018 as compared to 75.1% of revenues during the year ended December 31, 2017. The decrease in margin in the Principal Investments – United Online and magicJack segment is primarily due to the mix of revenues of services and fees and as a result of the acquisition of magicJack on November 14, 2018.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the years ended December 31, 2018 and 2017 were comprised of the following:

**Selling, General and Administrative Expenses by Segment**

(Dollars in thousands)

	Year Ended December 31, 2018		Year Ended December 31, 2017		Change	
	Amount	%	Amount	%	Amount	%
Capital Markets segment	\$233,497	79.5 %	\$153,886	72.3 %	\$79,611	51.7 %
Auction and Liquidation segment	8,305	2.8 %	8,350	3.9 %	(45 )	(0.5 )%
Valuation and Appraisal segment	10,782	3.7 %	8,742	4.1 %	2,040	23.3 %
Principal Investments - United Online and magicJack segment	18,563	6.3 %	18,337	8.6 %	226	1.2 %
Corporate and Other segment	22,535	7.7 %	23,693	11.1 %	(1,158 )	(4.9 )%
Total selling, general & administrative expenses	\$293,682	100.0%	\$213,008	100.0%	\$80,674	37.9%

Total selling, general and administrative expenses increased \$80.7 million, or 37.9%, to \$293.7 million during the year ended December 31, 2018 from \$213.0 million for the year ended December 31, 2017. The increase of \$80.7 million in selling, general and administrative expenses was due to an increase of \$79.6 million in the Capital Markets segment, \$2.0 million in the Valuation and Appraisal segment, and \$0.2 million in the Principal Investments - United Online and magicJack segment, offset by a decrease in selling, general and administrative expenses of \$1.2 million in the Corporate and Other segment.

***Capital Markets***

Selling, general and administrative expenses in the Capital Markets segment increased by \$79.6 million, or 51.7% to \$233.5 million during the year ended December 31, 2018 from \$153.9 million during the year ended December 31, 2017. The increase in expenses was primarily due to an increase of \$58.7 million in payroll and related expenses, an increase of \$3.5 million in market data and other communication expenses, an increase of \$2.7 million in share based payments, an increase of \$2.5 million in rent, occupancy and related expenses, an increase of \$2.6 million in clearing charges, an increase of \$1.3 million in amortization expense, an increase of \$2.0 million in business development expenses, an increase of \$1.2 million in professional fees and an increase of \$5.1 million in other expenses. The selling, general and administrative expenses in the Capital Markets segment for the year ended December 31, 2018 included full year expenses of FBR and Wunderlich, which we acquired on June 1, 2017 and July 3, 2017, respectively.

### ***Auction and Liquidation***

Selling, general and administrative expenses in the Auction and Liquidation segment was \$8.3 million during the year ended December 31, 2018 compared to \$8.4 million for the year ended December 31, 2017.

### ***Valuation and Appraisal***

Selling, general and administrative expenses in the Valuation and Appraisal segment increased \$2.0 million, or 23.3%, to \$10.8 million during year ended December 31, 2018 from \$8.7 million for the year ended December 31, 2017. The increase of \$2.0 million was primarily due to an increase of \$2.7 million in payroll and related expenses, offset by a decrease of \$0.7 million in other expenses.

### ***Principal Investments - United Online and magicJack***

Selling, general and administrative expenses in the Principal Investments - United Online and magicJack segment increased \$0.2 million, or 1.2%, to \$18.6 million for the year ended December 31, 2018 from \$18.3 million for the year ended December 31, 2017. magicJack's selling, general and administrative expenses included in the segment for the period from November 14, 2018 (acquisition date) to December 31, 2018 was \$2.4 million.

### *Corporate and Other*

Selling, general and administrative expenses for the Corporate and Other segment decreased \$1.2 million, or 4.9%, to \$22.5 million during the year ended December 31, 2018 from \$23.7 million for the year ended December 31, 2017. The decrease of expenses in the Corporate and Other segment for year ended December 31, 2018 was primarily due a decrease of \$3.0 million primarily related to the fair value adjustment and insurance recovery from key man life insurance in the prior year related to one of our executives in our appraisal segment and decrease in other general administrative expenses of \$2.0 million, offset by an increase in payroll and related expenses of \$3.8 million.

**Restructuring Charge.** During the year ended December 31, 2018, we incurred restructuring charges of \$8.5 million compared to restructuring charges of \$12.4 million during the year ended December 31, 2017. Restructuring charges of \$8.5 million during the 2018 period was primarily related to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment and the impairment of tradename for the rebranding of B. Riley Wealth Management. During the year ended December 31, 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of Wunderlich and FBR which included a reduction in force for some of the corporate executives of Wunderlich and FBR and a restructuring to integrate Wunderlich and FBR's operations with our operations. These initiatives resulted in a restructuring charge of \$11.7 million during the year ended December 31, 2017. The restructuring charges included \$3.3 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of Wunderlich and FBR and \$5.0 million of severance, accelerated vesting of stock awards to employees and \$3.4 million of lease loss accruals for the planned consolidation of office space related to operations. The restructuring charge in 2017 also included employee termination costs of \$0.7 million related to a reduction in personnel in the principal investments - United Online and magicJack segment of our operations.

**Other Income (Expense).** Other income included \$8.0 million income on equity investments during the year ended December 31, 2018 compared to a loss on equity investment of \$0.4 million during the same period in 2017. Other income included interest income of \$1.3 million during the year ended December 31, 2018 as compared to \$0.4 million during the year ended December 31, 2017. Interest expense was \$33.4 million during the year ended December 31, 2018 as compared to \$8.4 million during the year ended December 31, 2017. The increase in interest expense of \$25.0 million during the year ended December 31, 2018 compared to the same period in 2017 was primarily due to an increase in interest expense of \$19.0 million from the issuances of senior notes due in 2021, 2023 and 2027; and approximately \$6.6 million interest expense related to borrowings in connection with retail liquidation engagements, offset by a decrease in other interest expense of \$0.6 million.

**Income Before Income Taxes.** Income before income taxes increased \$0.9 million to \$21.3 million during the year ended December 31, 2018 from \$20.4 million during the year ended December 31, 2017. The increase in income before income taxes of \$0.9 million was due to an increase in revenues of \$100.8 million, an increase in income from equity investments of \$8.4 million and an increase in interest income of \$0.9 million, offset by an increase in operating expenses of \$84.2 million and an increase in interest expense of \$25.0 million.

**Provision for Income Taxes.** Provision for income tax was \$4.9 million during the year ended December 31, 2018, a decrease of \$3.6 million, from \$8.5 million during the year ended December 31, 2017. The effective income tax rate was 23.0% during the year ended December 31, 2018 and 41.6% during the year ended December 31, 2017. The provision for income taxes during the year ended December 31, 2017 included (a) tax expense of \$13.1 million primarily related to revaluation of deferred tax assets at 21.0% as a result of the U.S. Tax Cuts and Jobs Act enacted on December 22, 2017; and (b) a tax benefit of \$8.4 million related to our election to treat the acquisition of UOL as a taxable business combination for income tax purposes in accordance with Internal Revenue Code Section 338(g) as more fully discussed in Note 15 in the consolidated financial statements. The tax provision during the year ended December 31, 2017 also includes a tax benefit due to a non-taxable insurance recovery in the amount of \$6.0 million that was received in the second quarter of 2017.

**Net Income Attributable to Noncontrolling Interests.** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC, in which we have a 50% membership interest that we do not own. The net income attributable to noncontrolling interests was \$0.9 million during the year ended December 31, 2018 compared to net income attributable to noncontrolling interests of \$0.4 million during the year ended December 31, 2017.

**Net Income Attributable to the Company.** Net income attributable to the Company for the year ended December 31, 2018 was \$15.5 million, an increase of \$3.9 million, from \$11.6 million during the year ended December 31, 2017. The increase in net income attributable to the Company during the year ended December 31, 2018 of \$3.9 million was primarily due to an increase in total revenues of \$100.8 million, an increase in income from equity investments of \$8.4 million, an increase in interest income of \$0.9 million and a decrease in provision for income taxes of \$3.6 million, offset by an increase in operating expenses of \$84.3 million, an increase in interest expense of \$25.0 million and an increase in net income attributable to noncontrolling interest of \$0.5 million.



*Year Ended December 31, 2017 Compared to Year Ended December 31, 2016***Consolidated Statements of Income****(Dollars in thousands)**

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$304,841	94.6 %	\$164,235	86.3 %
Interest income - Securities lending	17,028	5.3 %	—	0.0 %
Sale of goods	307	0.1 %	26,116	13.7 %
Total revenues	322,176	100.0%	190,351	100.0%
<b>Operating expenses:</b>				
Direct cost of services	55,501	17.2 %	40,857	21.5 %
Cost of goods sold	398	0.1 %	14,755	7.8 %
Selling, general and administrative expenses	213,008	66.1 %	82,127	43.1 %
Restructuring charge	12,374	3.8 %	3,887	2.0 %
Interest expense - Securities lending	12,051	3.7 %	—	0.0 %
Total operating expenses	293,332	91.0 %	141,626	74.4 %
Operating income	28,844	9.0 %	48,725	25.6 %
<b>Other income (expense):</b>				
Interest income	420	0.1 %	318	0.2 %
Loss on equity investments	(437 )	(0.1 )%	—	0.0 %
Interest expense	(8,382 )	(2.6 )%	(1,996 )	(1.0 )%
Income before income taxes	20,445	6.4 %	47,047	24.7 %
Provision for income taxes	(8,510 )	(2.6 )%	(14,321 )	(7.5 )%
Net income	11,935	3.7 %	32,726	17.2 %
Net income attributable to noncontrolling interests	379	0.1 %	11,200	5.9 %
Net income attributable to B. Riley Financial, Inc.	\$11,556	3.6 %	\$21,526	11.3 %

## Revenues

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

	Year Ended December 31, 2017		Year Ended December 31, 2016		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and fees:						
Capital Markets segment	\$172,695	53.6 %	\$39,335	20.7 %	\$133,360	339.0 %
Auction and Liquidation segment	47,376	14.7 %	61,891	32.5 %	(14,515 )	(23.5 )%
Valuation and Appraisal segment	33,331	10.3 %	31,749	16.7 %	1,582	5.0 %
Principal Investments - United Online segment	51,439	16.0 %	31,260	16.4 %	20,179	64.6 %
Subtotal	304,841	94.6 %	164,235	86.3 %	140,606	85.6 %
Revenues - Sale of goods						
Auction and Liquidation segment	3	0.0 %	25,855	13.6 %	(25,852 )	(100.0)%
Principal Investments - United Online segment	304	0.1 %	261	0.1 %	43	16.5 %
Subtotal	307	0.1 %	26,116	13.7 %	(25,809 )	(98.8 )%
Interest income - Securities lending:						
Capital Markets segment	17,028	5.3 %	—	0.0 %	17,028	n/m
Total revenues	\$322,176	100.0%	\$190,351	100.0%	\$131,825	69.3 %

n/m - Not applicable or not meaningful.

Total revenues increased \$131.8 million to \$322.2 million during the year ended December 31, 2017 from \$190.4 million during the year ended December 31, 2016. The increase in revenues during the year ended December 31, 2017 was primarily due to an increase in revenues from services and fees of \$140.6 million and an increase in interest income – securities lending of \$17.0 million, offset by a decrease in revenues from the sale of goods of \$25.8 million. The increase in revenues from services and fees of \$140.6 million in 2017 was primarily due to an increase in revenues of (a) \$133.4 million in the Capital Markets segment, (b) \$20.2 million in the Principal Investments - United Online segment from the acquisition of UOL on July 1, 2016, and (c) \$1.6 million in the Valuation and Appraisal segment, offset by a \$14.5 million decrease in the Auction and Liquidation segment. The increase of \$17.0 million in interest income – securities lending was a result of the acquisition of FBR on June 1, 2017. The decrease in revenues from sale of goods of \$25.8 million was primarily due to the sale of retail goods that we acquired title to in September 2016 from the bankruptcy trustee of MS Mode, a retailer of women’s apparel that operates 130 retail locations throughout the Netherlands.

Revenues from services and fees in the Capital Markets segment increased \$133.4 million, or 339% to \$172.7 million during the year ended December 31, 2017 from \$39.3 million during the year ended December 31, 2016. The increase in revenues was due to an increase in revenues of \$66.1 million from investment banking, \$33.1 million from wealth management, \$29.2 million from sales commissions, fees and other, and \$5.0 million from trading income. The increase in revenues from investment banking fees was primarily due to an increase in the number of investment banking transactions where we acted as an advisor in 2017 as compared to the same period in 2016. Of the \$66.1 million increase from investment banking fees, \$50.9 million was due to operations of FBR that we acquired on June 1, 2017. The increase in revenues from wealth management services of \$33.1 million was \$33.0 million due to operations of Wunderlich that we acquired on July 3, 2017. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage and includes \$23.0 million of revenues from the acquisitions of FBR and Wunderlich. The increase of \$5.0 million in trading income in 2017 was primarily due to an increase in income we earned from trading activities in our propriety trading account. Of the \$5.0million increase in trading income, \$2.6 million was due to the acquisition of FBR.

Revenues from services and fees in the Auction and Liquidation segment decreased \$14.5 million, or 23.5%, to \$47.4 million during the year ended December 31, 2017 from \$61.9 million during the year ended December 31, 2016. The decrease in revenues of \$14.5 million was primarily due to a decrease in revenues of \$11.2 million from services and fees from retail liquidation engagements, and \$3.3 million decrease in revenues in our wholesale and industrial auction division. The decrease in revenues from services and fees was primarily due to the completion of two large retail liquidation engagements in 2016 where we guaranteed the recovery value of inventory and generated more revenues as compared to the larger mix of fee and commission type of retail liquidation engagements we completed in 2017. The decrease in revenues from services and fees in our wholesale and industrial division was primarily due to a decrease in the number of wholesale and industrial auction engagements in 2017 as compared to the same period in 2016.

Revenues from services and fees in the Valuation and Appraisal segment increased \$1.6 million, or 5%, to \$33.3 million during the year ended December 31, 2017 from \$31.7 million during the year ended December 31, 2016. The increase in revenues was primarily due to increases of (a) \$0.9 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$0.7 million related to appraisal engagements where we perform valuations of intellectual property and business valuations.

Revenues from services and fees in the Principal Investments - United Online segment increased \$20.2 million to \$51.4 million during the year ended December 31, 2017 from \$31.3 million during the year ended December 31, 2016. The increase in revenues was the result of the acquisition of UOL on July 1, 2016. Services revenues primarily from customer paid accounts related to our Internet access and related subscription services were \$39.2 million during the year ended December 31, 2017 and \$22.4 million during the year ended December 31, 2016. Advertising revenues from Internet display advertising and search related to our email and Internet access services were \$12.2 million during the year ended December 31, 2017 and \$8.9 million during the year ended December 31, 2016. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the Principal Investments - United Online segment to continue to decline year over year.

### Sale of Goods, Cost of Goods Sold and Gross Margin

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Principal			Principal		
	Auction and Liquidation Segment	Investments - United Online Segment	Total	Auction and Liquidation Segment	Investments - United Online Segment	Total
Revenues - Sale of Goods	\$3	\$ 304	\$307	\$25,855	\$ 261	\$26,116
Cost of goods sold	2	396	398	14,502	253	14,755
Gross margin on services and fees	\$1	\$ (92 )	\$(91 )	\$11,353	\$ 8	\$11,361
Gross margin percentage	33.3 %	(30.3 )%	(29.6)%	43.9 %	3.1 %	43.5 %

Revenues from the sale of goods decreased \$25.8 million, to \$0.3 million during the year ended December 31, 2017 from \$26.1 during the year ended December 31, 2016. Revenues from the sale of goods in 2016 was primarily due to the sale of retail goods related to the retail liquidation engagement of MS Mode in Europe where we took title to the goods and operated the MS Mode stores during the liquidation period. In the Principal Investments - United Online segment, revenues from the sale of goods was primarily due to the sale of mobile broadband devices that are sold in connection with the mobile broadband services we offer our customers. The increase in revenues were the result of the acquisition of UOL on July 1, 2016. Cost of goods sold in 2017 was \$0.4 million resulting in a gross margin of (\$0.1) million or (29.6) % during the year ended December 31, 2017. Cost of goods sold in 2016 was \$14.8 million resulting in a gross margin of \$11.4 million or 43.5% during the year ended December 31, 2016.

**Operating Expenses**

**Direct Costs of Services.** Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the years ended December 31, 2017 and 2016 are as follows:

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Auction and Liquidation Segment		Principal Investments - United Online Segment		Auction and Liquidation Segment		Principal Investments - United Online Segment	
				Total				Total
Revenues - Services and fees	\$47,376	\$33,331	\$51,439		\$61,891	\$31,749	\$31,260	
Direct cost of services	27,841	14,876	12,784	\$55,501	17,787	13,983	9,087	\$40,857
Gross margin on services and fees	\$19,535	\$18,455	\$38,655		\$44,104	\$17,766	\$22,173	
Gross margin percentage	41.2 %	55.4 %	75.1 %		71.3 %	56.0 %	70.9 %	

Total direct costs increased \$14.6 million, to \$55.5 million during the year ended December 31, 2017 from \$40.9 million during the year ended December 31, 2016. Direct costs of services increased by (a) \$10.1 million in the Auction and Liquidation segment, (b) \$0.9 million in the Valuation and Appraisal segment, and (c) \$3.7 million in the Principal Investments - United Online segment as a result of the acquisition of UOL on July 1, 2016. The increase in direct costs in the Auction and Liquidation segment was primarily due to the impact of completing more fee and commission type of retail liquidation engagements as compared to 2016 when we completed two large retail liquidation agreements where we guaranteed the recovery value of inventory. The increase in direct costs of services in the Valuation and Appraisal segment was primarily due to an increase in payroll and related expenses due to an increase headcount 2017 as compared to the same period in 2016.

### ***Auction and Liquidation***

Gross margin in the Auction and Liquidation segment for services and fees decreased to 41.2% of revenues during the year ended December 31, 2017, as compared to 71.3% of revenues during the year ended December 31, 2016. The decrease in gross margin during the year ended December 31, 2017 was primarily due to a change in the mix of fee type engagements in 2017 as compared to the same period in 2016. During 2017, we completed a larger mix of fee and commission type retail liquidation engagements where our margins are generally less than the comparable margins we generated in 2016 when we completed two larger retail liquidation engagements where we guaranteed the recovery value of inventory.

### ***Valuation and Appraisal***

Gross margins in the Valuation and Appraisal segment decreased to 55.4% of revenues during the year ended December 31, 2017 as compared to 56.0% of revenues during the year ended December 31, 2016. The decrease in gross margin is primarily due to an increase in payroll and related expenses from an increase in headcount during 2017 as compared to same period in 2016.

### ***Principal Investments – United Online***

Gross margins in the Principal Investments-United Online segment increased to 75.1% of revenues during the year ended December 31, 2017 as compared to 70.9% of revenues during the year ended December 31, 2016. Direct costs in the Principal Investments - United Online segment includes telecommunications and data center costs, personnel and overhead-related costs associated with operating our networks and data centers, depreciation of network computers and equipment, third party advertising sales commissions, license fees, costs related to providing customer support, costs related to customer billings and processing of customer credit cards and associated bank fees. The increase in gross margin is primarily due to a decrease in costs related to providing customer support and lower personnel costs.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the years ended December 31, 2017 and 2016 were comprised of the following:

### **Selling, General and Administrative Expenses by Segment**

**(Dollars in thousands)**

	<b>Year Ended</b>		<b>Year Ended</b>		<b>Change</b>	
	<b>December 31, 2017</b>		<b>December 31, 2016</b>			
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Capital Markets segment	\$ 153,886	72.3 %	\$ 33,244	40.5 %	\$ 120,642	362.9 %
Auction and Liquidation segment	8,350	3.9 %	14,357	17.5 %	(6,007 )	(41.8 )%
Valuation and Appraisal segment	8,742	4.1 %	8,885	10.8 %	(143 )	(1.6 )%
Principal Investments - United Online segment	18,337	8.6 %	9,492	11.5 %	8,845	93.2 %
Corporate and Other segment	23,693	11.1 %	16,149	19.7 %	7,544	46.7 %
Total selling, general & administrative expenses	\$ 213,008	100.0 %	\$ 82,127	100.0 %	\$ 130,881	159.4 %

Total selling, general and administrative expenses increased \$130.9 million, or 159.4%, to \$213.0 million during the year ended December 31, 2017 from \$82.1 million for the year ended December 31, 2016. The increase in expenses was primarily due to an increase in selling, general and administrative expenses of (a) \$120.6 million in the Capital Markets segment, (b) \$8.8 million in the Principal Investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, and (c) \$7.5 million in corporate and other, offset by a decrease in expenses of \$6.0 million in the Auction and Liquidation segment and \$0.1 million in the Valuation and Appraisal segment.

### *Capital Markets*

Selling, general and administrative expenses in the Capital Markets segment increased by \$120.6 million, or 362.9% to \$153.9 million during the year ended December 31, 2017 from \$33.2 million during the year ended December 31, 2016. The increase in expenses of \$120.6 million was primarily due to an increase in operating expenses of \$107.8 million from the acquisitions of FBR and Wunderlich in 2017. Of the \$107.8 million increase in selling and general and administrative expenses from the acquisitions of FBR and Wunderlich, \$69.4 million was payroll and related expenses. Selling, general and administrative expenses also increased primarily due to increase in payroll and related expenses of \$11.1 million related to increases in incentive compensation as a result of the increased revenues from investment banking fees in 2017 as compared to the same period in 2016.

### ***Auction and Liquidation***

Selling, general and administrative expenses in the Auction and Liquidation segment decreased \$6.0 million, or 41.8%, to \$8.4 million during the year ended December 31, 2017 from \$14.4 million for the year ended December 31, 2016. The decrease in expenses was primarily due to (a) a decrease in payroll and incentive compensation of \$2.1 million, (b) a decrease in legal and professional fees of \$2.8 million, and (c) a decrease in other expenses of \$1.1 million in 2017 as compared to the same period in 2016.

### ***Valuation and Appraisal***

Selling, general and administrative expenses in the Valuation and Appraisal segment decreased \$0.1 million, or 1.6%, to \$8.7 million during year ended December 31, 2017 from \$8.9 million for the year ended December 31, 2016. The decrease of \$0.1 million was primarily due to a decrease in general other operating expenses in 2017 as compared to the same period in 2016.

### ***Principal Investments – United Online***

Selling, general and administrative expenses in the Principal Investments - United Online segment increased \$8.8 million, or 93.2%, to \$18.3 million for the year ended December 31, 2017 from \$9.5 million for the year ended December 31, 2016 as a result of the acquisition of UOL on July 1, 2016. For the year ended December 31, 2017, these expenses include \$4.8 million of technology and development expenses, \$1.2 million of sales and marketing expenses, \$6.9 million of general and administrative expenses and \$5.4 million of amortization of intangibles. For the year ended December 31, 2016, these expenses include \$2.4 million of technology and development expenses, \$0.8 million of sales and marketing expenses, \$3.5 million of general and administrative expenses and \$2.8 million of amortization of intangibles. Technology and development expenses include expenses for product development, maintenance of existing software, technology and websites. Sales and marketing expenses include expenses associated personnel and overhead-related expenses for marketing, customer service, and advertising sales personnel to acquire and retain paid subscribers. Expenses associated with generating advertising revenues include sales commissions and personnel-related expenses. General and administrative expenses consist of personnel-related expenses for management in the Principal Investments - United Online segment, facilities, internal customer support personnel, personnel associated with operating our corporate systems and insurance recoveries. Amortization of intangibles includes amortization expense related to customer lists, advertising relationships, domain names and internally developed software.

### ***Corporate and Other.***



Selling, general and administrative expenses for corporate and other increased \$7.5 million, or 46.7%, to \$23.7 million during the year ended December 31, 2017 from \$16.1 million for the year ended December 31, 2016. The increase was primarily due to an increase in (a) fair value adjustment of \$8.2 million in connection with the mandatorily redeemable noncontrolling interests, (b) payroll and related expenses of \$3.0 million and (c) transactions costs of \$2.5 million incurred for professional fees that primarily related to the acquisition of Wunderlich, FBR and Dialectic in 2017. These increases in corporate overhead were offset by an insurance recovery in the amount of \$6.0 million related to key man life insurance on one of our executives in our appraisal segment.

**Restructuring Charge.** During the year ended December 31, 2017, we incurred restructuring charge of \$12.4 million compared to restructuring charge of \$3.9 million during the year ended December 31, 2016.

During the year ended December 31, 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of Wunderlich and FBR which included a reduction in force for some of the corporate executives of Wunderlich and FBR and a restructuring to integrate Wunderlich and FBR's operations with our operations. These initiatives resulted in a restructuring charge of \$11.7 million during the year ended December 31, 2017. The restructuring charges included \$3.3 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of Wunderlich and FBR and \$5.0 million of severance, accelerated vesting of stock awards to employees and \$3.4 million of lease loss accruals for the planned consolidation of office space related to operations. The restructuring charge in 2017 also included employee termination costs of \$0.7 million related to a reduction in personnel in the Principal Investments – United Online segment of our operations.

The restructuring charge in 2016 of \$3.9 million included \$3.5 million of employee termination costs related to a reduction in personnel in the corporate offices of UOL after our acquisition on July 1, 2016 and \$0.4 million of charges related to combining our corporate office location with the offices of UOL.

**Other Income (Expense).** Other income included interest income of \$0.4 million during the year ended December 31, 2017 as compared to \$0.3 million during the year ended December 31, 2016. Interest expense was \$8.4 million during the year ended December 31, 2017 as compared to \$2.0 million during the year ended December 31, 2016. The increase in interest expense during the year ended December 31, 2017 as compared to 2016 was primarily due to (a) \$5.7 million increase from the issuances of senior notes, (b) \$0.3 million incurred in 2017 from the UOL credit agreement, and (c) \$0.2 million incurred in 2017 from other notes payable. Other expense in year ended December 31, 2017 included \$0.4 million loss on equity investment.

**Income Before Income Taxes.** Income before income taxes was \$20.4 million during the year ended December 31, 2017, a decrease of \$26.6 million, from \$47.0 million during the year ended December 31, 2016. The decrease in income before income taxes was primarily due to (a) an increase in corporate and other expenses of \$10.9 million, which includes an increase in restructuring charges of \$3.4 million, (b) a decrease in operating income of \$29.9 million in our Auction and Liquidation segment, (c) an increase in interest expense of \$6.4 million and (d) loss on equity investment of \$0.4 million, offset by (a) an increase in operating income of \$10.3 million in our Principal Investments – United Online segment as a result of the acquisition of UOL on July 1, 2016, (b) an increase in operating income of \$9.8 million in our Capital Markets segment, and (c) an increase in operating income of \$0.8 million in our Valuation and Appraisal segment.

**Provision For Income Taxes.** Provision for income tax was \$8.5 million during the year ended December 31, 2017, a decrease of \$5.8 million, from \$14.3 million during the year ended December 31, 2016. The effective income tax rate was 41.6% during the year ended December 31, 2017 and 30.4% during the year ended December 31, 2016. The provision for income taxes during the year ended December 31, 2017 included (a) tax expense of \$13.1 million primarily related to revaluation of deferred tax assets at 21.0% as a result of the U.S. Tax Cuts and Jobs Act enacted on December 22, 2017; and (b) a tax benefit of \$8.4 million related to our election to treat the acquisition of UOL as a taxable business combination for income tax purposes in accordance with Internal Revenue Code Section 338(g) as more fully discussed in Note 15 in the consolidated financial statements. The tax provision during the year ended December 31, 2017 also includes a tax benefit due to a non-taxable insurance recovery in the amount of \$6.0 million that was received in the second quarter of 2017.

**Net Income Attributable to Noncontrolling Interests.** Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC, in which we have a 50% membership interest that we do not own. The net income attributable to noncontrolling interests was \$0.4 million during the year ended December 31, 2017 compared to net income attributable to noncontrolling interests of \$11.2 million during the year ended December 31, 2016.

**Net Income Attributable to the Company.** Net income attributable to the Company for the year ended December 31, 2017 was \$11.6 million, a decrease of approximately \$10.0 million, from \$21.5 million during the year ended December 31, 2016. The decrease in net income during the year ended December 31, 2017 as compared to the same period in 2016 was primarily due to (a) an decrease in operating income in the Auction and Liquidation segment of \$29.9 million, (b) increase in corporate and other expenses of \$10.9 million, and (c) increase in interest expense of \$6.4 million, offset by (a) an increase in operating income in Principal Investments – United Online segment the \$10.3 million, (b) an increase in operating income in the Capital Markets segment of \$9.8 million, (c) increase in operating income of \$0.8 million in the Valuation and Appraisal segment, (d) decrease in net income attributable to noncontrolling interests of \$10.8 million, and (e) a decrease in provision for income taxes of \$5.8 million.

## Liquidity and Capital Resources

Our operations are funded through a combination of existing cash on hand, cash generated from operations, proceeds from the issuance of common stock, borrowings under our senior notes payable and term loan, credit facility, and special purposes financing arrangements. On November 2, 2016, we issued \$28.8 million of Senior Notes due in 2021 (the “7.50% 2021 Notes”), and during the second half of 2017, we issued an additional \$6.4 million of the 7.50% 2021 Notes. During the year ended December 31, 2018, we issued an additional \$11.2 million of the 7.50% 2021 Notes. Interest on the 7.50% 2021 Notes is payable quarterly at 7.50% commencing January 31, 2017. The 7.50% 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 7.50% 2021 Notes, we received net proceeds of \$45.5 million (after underwriting commissions, fees and other issuance costs of \$0.9 million). On May 31, 2017, we issued \$60.4 million of Senior Notes due in May 2027 (the “7.50% 2027 Notes”), and during the second half of 2017, we issued an additional \$32.1 million of the 7.50% 2027 Notes. During the year ended December 31, 2018, we issued an additional \$16.3 million of the 7.50% 2027 Notes. Interest is payable quarterly at 7.50% commencing July 31, 2017. The 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, we received net proceeds of approximately \$107.0 million (after underwriting commissions, fees and other issuance costs of \$1.8 million). In December 2017, we issued \$80.5 million of Senior Notes due in December 2027 (the “7.25% 2027 Notes”). During the year 2018, we issued an additional \$19.9 million of 7.25% 2027 Notes. Interest is payable quarterly at 7.25% commencing January 31, 2018. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, we received net proceeds of \$97.8 million (after underwriting commissions, fees and other issuance costs of \$2.6 million). In May 2018, we issued approximately \$100.0 million of Senior Notes due in May 2023 (the “7.375% 2023 Notes”). During the year ended December 31, 2018, we issued an additional \$11.5 million of the 7.375% 2023 Notes. Interest is payable quarterly at 7.375% commencing July 31, 2018. The 7.375% 2023 Notes are unsecured and due and payable in full on May 31, 2023. In connection with the issuance of the 7.375% 2023 Notes, we received net proceeds of \$109.7 million (after underwriting commissions, fees and other issuance costs of \$1.9 million). In September 2018, we issued approximately \$100.1 million of Senior Notes due in September 2023 (the “6.875% 2023 Notes”). Interest is payable quarterly at 6.875% commencing October 31, 2018. The 6.875% 2023 Notes are unsecured and due and payable in full on September 30, 2023. In connection with the issuance of the 6.875% 2023 Notes, we received net proceeds of \$98.5 million (after underwriting commissions, fees and other issuance costs of \$1.5 million).

On December 19, 2018, BRPAC, UOL, and YMAX (collectively, the “Borrowers”), indirect wholly owned subsidiaries of the Company, in the capacity of borrowers, entered into a credit agreement with the Banc of California, N.A. in the capacity as agent and lender and with the other lenders party thereto (the “BRPAC Credit Agreement”). Under the BRPAC Credit Agreement, we borrowed \$80.0 million due December 19, 2023. Pursuant to the terms of the BRPAC Credit Agreement, we may request additional optional term loans in an aggregate principal amount of up to \$10.0 million at any time prior to the first anniversary of the agreement date. On February 1, 2019, the Borrowers entered into the First Amendment to Credit Agreement and Joinder with City National Bank as a new lender to the BRPAC Credit Agreement in which the new lender extended to Borrowers the additional \$10.0 million as further discussed in Note 11 to the accompanying financial statements. Amounts outstanding under the BRPAC Credit Agreement are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity. For the \$80.0 million loan, quarterly installments from March 31, 2019 to December 31, 2022 are in the amount of \$4.4 million per quarter and from March 31, 2023 to September 30, 2023 are \$2.2 million per quarter. For the \$10.0 million loan, quarterly installments from June 30, 2019 to December 31, 2022 are in the amount of \$0.6 million per quarter and from March 31, 2023 to September 30, 2023 are \$0.3 million per quarter. As of December 31, 2018, the outstanding balance of the term loan was \$79,166 (net of unamortized debt issuance costs of \$834).

During the years ended December 31, 2018 and 2017, we generated net income of \$15.5 million and \$11.6 million, respectively. Our cash flows and profitability are impacted by the number and size of retail liquidation and Capital Markets engagements performed on a quarterly and annual basis.

As of December 31, 2018, we had \$179.4 million of unrestricted cash and cash equivalents, \$0.8 million of restricted cash, \$273.6 million of investments in securities and other investments, \$38.8 million of loans receivable, and \$540.5 million of borrowings outstanding. The borrowings outstanding of \$540.5 million at December 31, 2018 included (a) \$45.9 million of borrowings from the issuance of the 7.50% 2021 Notes, (b) \$107.3 million of borrowings from the issuance of the 7.50% 2027 Notes, (c) \$98.1 million of borrowings from the issuance of the 7.25% 2027 Notes, (d) \$109.9 million of borrowings from the issuance of the 7.375% 2023 Notes, (e) \$98.6 million of borrowings from the issuance of the 6.875% 2023 Notes, (f) \$79.2 million term loan borrowed pursuant to the BRPAC Credit Agreement discussed above; and (f) approximately \$1.5 million of notes payable. We believe that our current cash and cash equivalents, securities and other investments owned, funds available under our asset based credit facility, and cash expected to be generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months from issuance date of the accompanying financial statements. We continue to monitor our financial performance to ensure sufficient liquidity to fund operations and execute on our business plan.

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. On March 5, 2019 the Company declared a regular dividend of \$0.08 per share which will be paid by the Company on or about March 28, 2019 to stockholders of record as of March 19, 2019. On November 5, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on November 27, 2018 to stockholders of record as of November 16, 2018. On August 2, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.22 per share which was paid by the Company on August 29, 2018 to stockholders of record as of August 16, 2018. On May 7, 2018, the Company

declared a regular dividend of \$0.08 per share and a special dividend of \$0.04 per share which was paid by the Company on June 5, 2018 to stockholders of record as of May 21, 2018. On March 7, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on April 3, 2018. During the years ended December 31, 2018 and 2017, we paid cash dividends of \$22.7 million and \$16.8 million on our common stock, respectively. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

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

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(Dollars in thousands)</b>		
Net cash (used in) provided by:			
Operating activities	\$(104,814)	\$(81,790 )	\$80,280
Investing activities	(151,441)	(17,836 )	(34,063)
Financing activities	284,859	134,094	40,404
Effect of foreign currency on cash	(860 )	2,667	(1,285 )
Net increase in cash, cash equivalents and restricted cash	\$27,744	\$37,135	\$85,336

***Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***

Cash used in operating activities was \$104.8 million for the year ended December 31, 2018, an increase of \$23.0 million, from cash used by operating activities of \$81.8 million for the year ended December 31, 2017. Cash used in operating activities for the year ended December 31, 2018 included net income of \$16.4 million adjusted for noncash items and changes in operating assets and liabilities. The increase in cash used in operating activities of \$104.8 million was primarily due to changes in operating assets and liabilities that resulted in a decrease of \$151.9 million in cash flows from operations during the year ended December 31, 2018, offset by (a) an increase in net income of \$4.5 million to \$16.4 million during the year ended December 31, 2018 from \$11.9 million during the year ended December 31, 2017, and (b) an increase in non-cash charges and other items of \$30.7 million, which included depreciation and amortization of \$13.8 million, share-based compensation of \$13.0 million, income on equity investments of \$8.0 million, deferred income taxes of \$2.0 million, provision for doubtful accounts of \$1.3 million, impairment of leaseholds and intangibles, lease loss accrual and loss on disposal of fixed assets of \$4.1 million, income allocated for mandatorily redeemable noncontrolling interests of \$1.2 million and other non-cash items and effects of foreign currency on operations of \$0.9 million.

Cash used in investing activities was \$151.4 million during the year ended December 31, 2018 compared to cash used in investing activities of \$17.8 million during for the year ended December 31, 2017. During the year ended December 31, 2018, cash used in investing activities consisted of cash used to purchase loans receivable of \$38.8 million, cash use for the acquisition of magicJack, net of cash acquired of \$89.2 million, cash use for equity investments of \$16.6 million, cash use of \$4.0 million to acquire a business and cash use of \$5.4 million for purchases of property and equipment, offset by \$2.6 million dividends received from one of our equity investments. During the year ended December 31, 2017, cash used in investing activities consisted of (a) cash used to purchase Wunderlich and United Online in the amounts of approximately \$25.4 million and \$10.4 million, respectively, (b) cash use of \$2.1 million for the acquisition of other businesses, (c) cash use of \$1.7 million for an equity investment, and (d) cash use of \$0.8 million for purchases of property and equipment, offset by (a) cash acquired from the acquisition of FBR of \$15.7 million, (b) proceeds from key man life insurance of \$6.0 million, and (c) proceeds from sale of property, equipment

and other intangibles of \$0.8 million.

Cash provided by financing activities was \$284.9 million during the year ended December 31, 2018 compared to \$134.1 million during the year ended December 31, 2017. During the year ended December 31, 2018, cash provided by financing activities primarily consisted of (a) \$259.0 million proceeds from issuance of senior notes, (b) \$80.0 million proceeds from term loan borrowings; (c) \$300.0 million proceeds from our asset based credit facility, and (d) \$51.0 million proceeds from notes payable, offset by (a) \$300.0 million used for repayment of borrowings from our asset based credit facility, (b) \$51.7 million repayment of notes payable, (c) \$22.7 million used to pay cash dividends, (d) \$18.7 million used to repurchase our common stock, (e) \$7.3 million used for payment of debt issuance costs, (f) \$3.7 million comprised of ESPP shares and payment of employment taxes on vesting of restricted stock, and (g) \$1.1 million distribution to noncontrolling interests. During the year ended December 31, 2017, cash provided by financing activities primarily consisted of (a) \$66.0 million proceeds from asset based credit facility and (b) \$179.5 million proceeds from issuance of senior notes, offset by (a) \$66.0 million used to repay the asset based credit facility, (b) \$16.8 million used to pay cash dividends, (c) \$8.3 million used to repay other notes payable in connection with the acquisition of Wunderlich, (d) \$11.3 million distributions to noncontrolling interests, (e) \$4.3 million used for debt issuance costs, (f) \$1.3 million used for the payment of contingent consideration, and (g) \$3.5 million used for the payment of employment taxes on vesting of restricted stock.

#### ***Year Ended December 31, 2017 Compared to Year Ended December 31, 2016***

Cash used in operating activities was \$81.8 million for the year ended December 31, 2017, a decrease of \$162.1 million, from cash provided by operating activities of \$80.3 million for the year ended December 31, 2016. Cash used in operating activities for the year ended December 31, 2017 includes net income of \$11.9 million adjusted for noncash items and changes in operating assets and liabilities. The decrease in cash provided by operating activities of \$162.1 million was primarily due to (a) an decrease in net income of \$20.8 million to \$11.9 million during the year ended December 31, 2017, from \$32.7 million during the comparable year in 2016, (b) an increase in non-cash charges and other items of \$36.8 million, which included recovery of key man life insurance of \$(6.0) million, depreciation and amortization of \$11.1 million, share based compensation \$10.3 million, impairment of leasehold improvements and other of \$3.6 million, income allocated and fair value adjustment for mandatorily redeemable noncontrolling interest of \$10.8 million and deferred income taxes of \$5.7 million, and (c) changes in operating assets and liabilities that resulted in an decrease of \$130.5 million in cash flows from operations during the year ended December 31, 2017 as compared to the same year in 2016.

Cash used in investing activities was \$17.8 million during the year ended December 31, 2017 compared to cash used in investing activities of \$34.1 million during for the year ended December 31, 2016. During the year ended December 31, 2017, cash used in investing activities consisted of (a) cash used to purchase Wunderlich and United Online in the amounts of approximately \$25.4 million and \$10.4 million, respectively, (b) cash use of \$2.1 million for the acquisition of other businesses, (c) cash use of \$1.7 million for an equity investment, and (d) cash use of \$0.8 million for purchases of property and equipment, offset by (a) cash acquired from the acquisition of FBR of \$15.7 million, (b) proceeds from key man life insurance of \$6.0 million, and (c) proceeds from sale of property, equipment and other intangibles of \$0.8 million. During the year ended December 31, 2016, cash used in investing activities was primarily comprised of (a) cash used to purchase UOL in the amount of \$33.4 million, (b) an increase in restricted cash of \$2.8 million, and (c) \$0.7 million of cash used to purchase property and equipment.

Cash provided by financing activities was \$134.1 million during the year ended December 31, 2017 compared to \$40.4 million during the year ended December 31, 2016. During the year ended December 31, 2017, cash provided by financing activities primarily consisted of (a) \$66.0 million proceeds from asset based credit facility and (b) \$179.5 million proceeds from issuance of senior notes, offset by (a) \$66.0 million used to repay the asset based credit facility, (b) \$16.8 million used to pay cash dividends, (c) \$8.3 million used to repay other notes payable in connection with the acquisition of Wunderlich, (d) \$11.3 million distributions to noncontrolling interests, (e) \$4.3 million used for debt issuance costs, (f) \$1.3 million used for the payment of contingent consideration, and (g) \$3.5 million used for the payment of employment taxes on vesting of restricted stock. During the year ended December 31, 2016, cash provided by financing activities primarily consisted of (a) \$22.8 of net proceeds from our secondary offering of common stock in May 2016 and (b) \$27.7 million of net proceeds from the issuance of our Senior Notes in November 2016, offset by cash used in financing activities of (a) \$5.3 million of dividends paid on our common stock, (b) \$2.0 million of distributions to noncontrolling interests, (c) \$1.2 million of cash used to pay employment taxes on the vesting of restricted stock, and (d) \$1.6 million of cash used for the repayment of amounts outstanding under our revolving credit facilities and contingent consideration payable.

### *Credit Agreements*

On April 21, 2017, we amended the Credit Agreement governing our asset based credit facility with Wells Fargo Bank to increase the maximum borrowing limit from \$100.0 million to \$200.0 million. Such amendment, among other things, also extended the expiration date of the credit facility from July 15, 2018 to April 21, 2022. On April 19, 2018, the Company entered into an amended and restated consent to the Credit Agreement, pursuant to which Wells Fargo Bank increased the maximum borrowing limit solely for the purposes of the Bon-Ton Transactions from \$200.0 million to \$300.0 million and reverted back to \$200.0 million upon repayment of the amounts borrowed in connection with the Bon-Ton Transactions. The amounts borrowed in connection with the Bon Ton Transaction were fully repaid in the third quarter of 2018 and the maximum borrowing limit under the Credit Agreement reverted back to \$200.0 million. The Credit Agreement continues to allow for borrowings under the separate credit agreement (a "UK Credit Agreement") which was dated March 19, 2015 with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom with borrowings up to 50.0 million British Pounds. Any borrowing on the UK Credit Agreement reduce the availability of the asset based \$300.0 million credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. The Credit Agreement continues to



include the addition of our Canadian subsidiary, from the October 5, 2016 amendment to the Credit Agreement, to facilitate borrowings to fund retail liquidation transactions in Canada. From time to time, we utilize this credit facility to fund costs and expenses incurred in connection with liquidation engagements. We also utilize this credit facility in order to issue letters of credit in connection with liquidation engagements conducted on a guaranteed basis. Subject to certain limitations and offsets, we are permitted to borrow up to \$200.0 million under the credit facility, less the aggregate principal amount borrowed under the UK Credit Agreement (if in effect). Borrowings under the credit facility are only made at the discretion of the lender and are generally required to be repaid within 180 days. The interest rate for each revolving credit advance under the related credit agreement is, subject to certain terms and conditions, equal to the LIBOR plus a margin of 2.25% to 3.25% depending on the type of advance and the percentage such advance represents of the related transaction for which such advance is provided. The credit facility is secured by the proceeds received for services rendered in connection with the liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract, if any. The credit facility also provides for success fees in the amount of 2.5% to 17.5% of the net profits, if any, earned on liquidation engagements that are financed under the credit facility as set forth in the related credit agreement. We typically seek borrowings on an engagement-by- engagement basis. The credit agreement governing the credit facility contains certain covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. At December 31, 2018, there were no letters of credit outstanding under the credit facility.

On December 19, 2018, BRPI Acquisition Co LLC (“BRPAC”), a Delaware corporation, UOL, and YMAX Corporation, a Delaware corporation (collectively, the “Borrowers”), indirect wholly owned subsidiaries of the Company, in the capacity of borrowers, entered into a credit agreement with the Banc of California, N.A. in the capacity as agent and lender and with the other lenders party thereto (the “BRPAC Credit Agreement”). Under the BRPAC Credit Agreement, we borrowed \$80.0 million due December 19, 2023. Pursuant to the terms of the BRPAC Credit Agreement, we may request additional optional term loans in an aggregate principal amount of up to \$10.0 million at any time prior to the first anniversary of the agreement date. On February 1, 2019, the Borrowers entered into the First Amendment to Credit Agreement and Joinder with City National Bank as a new lender in which the new lender extended to Borrowers the additional \$10.0 million as further discussed in Note 11 to the accompanying financial statements. Borrowings under the BRPAC Credit Agreement are due in quarterly installments commencing on March 31, 2020 with any remaining amounts outstanding due at maturity. The borrowings under the BRPAC Credit Agreement bear interest equal to the LIBOR plus a margin of 2.50% to 3.00% depending on the Borrowers’ consolidated total funded debt ratio as defined in the BRPAC Credit Agreement.

### *Senior Notes*

On November 2, 2016, we issued \$28.8 million Senior Notes (the “7.50% 2021 Notes”) and during the second half of 2017, we issued an additional \$6.5 million of the 7.50% 2021 Notes pursuant to an At the Market Issuance Sales Agreement as further discussed below. During the year ended December 31, 2018, we issued an additional \$11.1 million of the 7.50% 2021 Notes. The 7.50% 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 7.50% 2021 Notes, we received net proceeds of \$45.5 million (after underwriting commissions, fees and other issuance costs of \$0.9 million). The outstanding balance of the 7.50% 2021 Notes was \$45.9 million (net of unamortized debt issue costs and premiums of \$0.5 million) and \$34.5 million (net of unamortized debt issuance costs and premium of \$0.8 million) at December 31, 2018 and 2017, respectively.

On May 31, 2017, we issued \$60.4 million of Senior Notes (the “7.50% 2027 Notes”) and during the second half of 2017, we issued an additional \$32.1 million of the 7.50% 2027 Notes pursuant to an At the Market Issuance Sales Agreement. During the year ended December 31, 2018, we issued an additional \$16.3 million of the 7.50% 2027 Notes. The 7.50% 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, we received net proceeds of \$107.0 million (after underwriting commissions, fees and other issuance costs of \$1.8 million). The outstanding balance of the 7.50% 2027 Notes was \$107.3 million (net of unamortized debt issue costs and premium of \$1.5 million) and \$90.9 million (net of unamortized debt issue costs and premium of \$1.6 million) at December 31, 2018 and 2017, respectively.

In December 2017, we issued \$80.5 million of the 7.25% 2027 Notes and during the year ended December 31, 2018, we issued an additional \$19.9 million of the 7.25% 2027 Notes pursuant to an At the Market Issuance Sales Agreement. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, we received net proceeds of \$97.8 million (after underwriting commissions, fees and other issuance costs of \$2.6 million). The outstanding balance of the 7.25% 2027 Notes was

\$98.1 million (net of unamortized debt issue costs and premium of \$2.3 million) and \$78.2 (net of unamortized debt issuance costs of \$2.3) at December 31, 2018 and 2017, respectively.

In May 2018, we issued approximately \$100.1 million of the 7.375% 2023 Notes and through December 31, 2018, we issued an additional \$11.5 million of the May 2023 Notes pursuant to an At the Market Issuance Sales Agreement. The 7.375% 2023 Notes are unsecured and due and payable in full on May 31, 2023. In connection with the issuance of the 7.375% 2023 Notes, we received net proceeds of \$109.7 million (after underwriting commissions, fees and other issuance costs of \$1.9 million). The outstanding balance of the 7.375% 2023 Notes was \$109.9 million (net of unamortized debt issue costs and premium of \$1.7 million) at December 31, 2018.

In September 2018, we issued approximately \$100.1 million of the 6.875% 2023 Notes. The 6.875% 2023 Notes are unsecured and due and payable in full on September 30, 2023. In connection with the issuance of the 6.875% 2023 Notes, we received net proceeds of \$98.5 million (after underwriting commissions, fees and other issuance costs of \$1.5 million). The outstanding balance of the 6.875% 2023 Notes was \$98.6 million (net of unamortized debt issue costs and premium of \$1.4 million) at December 31, 2018.

During 2017 and 2018, we entered into a series of related At the Market Issuance Sales Agreements (the “Sales Agreements”) with B. Riley FBR, Inc. governing an ongoing program of at-the-market sales of our senior notes. We filed prospectus supplements under which we sold the senior notes on June 28, 2017, December 19, 2017, April 25, 2018, June 5, 2018 and December 18, 2018. Each of these prospectus supplements was filed pursuant to an effective Registration Statement on Form S-3. In aggregate, we have sold senior notes having an aggregate principal balance of \$467.2 million under the Sales Agreements and related prospectus supplements. Our most recent Sales Agreement was entered into on December 18, 2018 (the “December 2018 Program”), and, under the related prospectus supplement, we may offer and sell up to \$75.0 million of the senior notes. As of December 31, 2018, we had \$75.0 million remaining availability under the December 2018 Program.

### ***Other Borrowings***

Notes payable include notes payable to a clearing organization for one of our broker dealers. The notes payable accrue interest at rates set at each anniversary date, ranging from prime rate plus 0.25% to 2.0% (5.25% to 6.50% at December 31, 2018). Interest is payable annually. The principal payments on the notes payable are due annually in the amount of \$0.4 million on January 31, \$0.2 million on September 30, and \$0.1 million on October 31. The notes payable mature at various dates from September 30, 2018 through January 31, 2022. At December 31, 2018 and 2017, the outstanding balance for the notes payable was \$1.6 million and \$2.2 million, respectively.

On April 19, 2018, we borrowed approximately \$51.0 million from GACP II, L.P., a direct lending fund managed by Great American Capital Partners, LLC, a wholly owned subsidiary of the Company. In accordance with the note payable, we were advanced \$50.0 million and the note payable included an origination fee of \$1.0 million that increased the face value of the note payable to \$51.0 million. Interest accrued at the three-month LIBOR rate plus 9%. The note payable was due in September 2018 and was fully repaid in August 2018. The note was collateralized by the proceeds generated from the joint venture liquidation of inventory and real estate related to a retail liquidation agreement.

### **Off Balance Sheet Arrangements**

At December 31, 2018, we had an off-balance sheet guarantee, the Limited Guarantee, which was entered into on June 17, 2018 as part of Vintage Parent's acquisition of Rent-A-Center as more fully described in Recent Developments included in Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations. In connection therewith, B. Riley and Vintage Merger Guarantor agreed to guarantee, jointly and severally, to Rent-A-Center the payment, performance and discharge of all of the liabilities and obligations of Vintage Parent and Merger Sub under the Merger Agreement when required in accordance with the Merger Agreement, including without limitation, (i) termination fees in the amount of \$126.5 million due to Rent-A-Center if the Merger Agreement is properly terminated; and (ii) reimbursement and indemnification obligations when required, provided, that the liability under the Limited Guarantee shall not exceed \$128.5 million.

In connection with the execution of the Limited Guarantee, the Company entered into a Mutual Indemnity Agreement, dated as of June 17, 2018, with the Vintage Indemnity Parties. Under the Mutual Indemnity Agreement, the Vintage Guarantors agreed, jointly and severally, to indemnify and hold harmless B. Riley and its affiliates from damages and liabilities arising out of the Guarantee Obligations, other than those caused B. Riley's failure to fund under their debt or equity commitments.

See Item 3. Legal Proceedings for additional discussion of the Limited Guarantee.

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

## Dividends

From time to time, we may decide to pay dividends which will be dependent upon our financial condition and results of operations. On March 5, 2019 the Company declared a regular dividend of \$0.08 per share which will be paid by the Company on or about March 28, 2019 to stockholders of record as of March 19, 2019. On November 5, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on November 27, 2018 to stockholders of record as of November 16, 2018. On August 2, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.22 per share which was paid by the Company on August 29, 2018 to stockholders of record as of August 16, 2018. On May 7, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.04 per share which was paid by the Company on June 5, 2018 to stockholders of record as of May 21, 2018. On March 7, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on April 3, 2018. During the years ended December 31, 2018 and 2017, we paid cash dividends of \$22.7 million and \$16.8 million on our common stock, respectively. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, our Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors.

## Contractual Obligations

The following table sets forth aggregate information about our contractual obligations as of December 31, 2018 and the periods in which payments are due:

	Payments due by period				More Than 5 years
	Total	Less Than One Year	1-3 Years	4-5 Years	
	<b>(Dollars in thousands)</b>				
Contractual Obligations					
Operating lease obligations	\$85,163	\$ 12,607	\$ 21,572	\$ 18,058	\$ 32,926
Notes payable	1,719	561	799	359	—
Term loan	90,733	21,627	40,967	28,139	—
Senior notes payable, including interest	680,286	34,026	113,884	266,150	266,226
Total	\$ 857,901	\$ 68,821	\$ 177,222	\$ 312,706	\$ 299,152

We anticipate that cash generated from operations and existing borrowing arrangements under our credit facility to fund costs and expenses incurred in connection with liquidation engagements should be sufficient to meet our cash

requirements for at least the next twelve months. However, our future capital requirements will depend on many factors, including the success of our businesses in generating cash from operations, continued compliance with financial covenants contained in our credit facility, the timing of principal payments on our long-term debt and the Capital Markets in general, among other factors.

### **Critical Accounting Policies**

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

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

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

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

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

**Revenue Recognition.** On January 1, 2018, we adopted Accounting Standards Codification (“ASC”) 606 – *Revenue from Contracts with Customers* using the modified retrospective method and the impact was determined to be immaterial on our consolidated financial statements. The new revenue standard was applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

Revenues are recognized when control of the promised goods or performance obligations for services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for the goods or services.

Revenues from contracts with customers in the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment, and Principal Investments – United Online and magicJack segment are primarily comprised of the following:

*Capital Markets Segment* - 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. Fees from underwriting activities are recognized as revenues when the performance obligation for the services related to the underwriting transaction is satisfied under the terms of the engagement and is not subject to any other contingencies. Fees are also earned from financial advisory and consulting services rendered in connection with client mergers, acquisitions, restructurings, recapitalizations and other strategic transactions. The performance obligation for financial advisory services is satisfied over time as work progresses on the engagement and services are delivered to the client. The performance obligation for financial advisory services may also include success and performance based



fees which are recognized as revenue when the performance obligation is no longer constrained and it is not probable that the revenue recognized would be subject to significant reversal in a future period. Generally, it is probable that the revenue recognized is no longer subject to significant reversal upon the closing of the investment banking transaction.

Fees from wealth and asset management services consist primarily of investment management fees that are recognized over the period the performance obligation for 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 are recognized when the performance obligation is satisfied and include commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis and fees paid for equity research.

Revenues from other sources in the Capital Markets segment is primarily comprised of (i) interest income from loans receivable and securities lending activities, (ii) related net trading gains and losses from market making activities, the commitment of capital to facilitate customer orders, (iii) trading activities from our Principal Investments in equity and other securities for the Company's account, and (iv) other income.

Interest income from securities lending activities consists 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.

Other revenues include (i) net trading gains and losses from market making activities in our fixed income group, (ii) carried interest from our asset management recognized as earnings from financial assets within the scope of ASC 323 - *Investments - Equity Method and Joint Ventures*, and therefore will not be in the scope of ASC 606 - *Revenue from Contracts with Customers*. In accordance with ASC 323 - *Investments - Equity Method and Joint Ventures*, the Company will record equity method income (losses) as a component of investment income based on the change in our proportionate claim on net assets of the investment fund, including performance-based capital allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each fund's governing agreements, and (iii) other miscellaneous income.

*Auction and Liquidation segment* - Commission and fees earned on the sale of goods at Auction and Liquidation sales are recognized when evidence of a contract or arrangement exists, the transaction price has been determined, and the performance obligation has been satisfied when control of the product and risks of ownership has been transferred to the buyer. The commission and fees earned for these services are included in revenues in the accompanying consolidated statements of income. Under these types of arrangements, revenues also include contractual reimbursable costs.

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 over time when the performance obligation is satisfied. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of services to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill the contract include labor and other direct costs related to the contract. Due to the nature of the guarantees and performance obligations under these contracts, the estimation of revenue that is ultimately earned is complex and subject to many variables and requires significant judgment. It is common for these contracts to contain provisions that can either increase or decrease the transaction price upon completion of our performance obligations under the contract. Estimated amounts are included in the transaction price at the most likely amount it is probable that a significant reversal of revenue will not occur. Our estimates of variable consideration and determination of whether or not to include estimated amounts in the transaction price are based on an assessment of our anticipated performance under the contract taking into consideration all historical, current and forecasted information that is reasonably available to us. Costs that directly relate to the contract and expected to be recoverable are capitalized as an asset and included in advances against customer contracts in the accompanying consolidated balance sheets. These costs are amortized as the services are transferred to the customer over the contract period, which generally does not exceed six months, and the expense is recognized as a component of direct cost of services. If, during the auction or liquidation sale, the Company determines that the total costs to be incurred on a performance obligation under a contract exceeds the total estimated revenues to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

*Valuation and Appraisal Segment* - Revenues in the Valuation and Appraisal segment are primarily comprised of fees for Valuation and Appraisal services. Revenues are recognized when the performance obligation is completed and is generally at the point in time upon delivery of the report to the customer. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs.

*Principal Investments – United Online and magicJack Segment* – Revenues in the Principal Investments - United Online and magicJack segment are primarily comprised of services revenue from fees charged to United Online pay accounts; sales revenue from the sale of the magicJack and related devices and access rights; revenues from access rights renewals and mobile apps; prepaid minutes revenues; revenues from access and wholesale charges; service revenue from Unified Communication as a Service (“UCaaS”) hosting services; advertising and other revenues; and products revenues from the sale of magicJack and mobile broadband service devices, including the related shipping and

handling and installation fees, if applicable.

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

Revenues from sales of the magicJack devices and access rights represent revenues recognized from sales of the magicJack devices to retailers, wholesalers, or direct to customers, net of returns. Prior to the adoption of ASC 606 revenues for the device and initial access right were accounted for as a combined unit of accounting and recognized ratably over the service term. With the adoption of ASC 606, the transaction price for magicJack devices is allocated between equipment and service based on stand-alone selling prices. Revenues allocated to equipment are recognized when control transfers to the customer, and service revenue is recognized ratably over the service term. The Company estimates the return of direct sales as part of the transaction price using a six month rolling average of historical returns. Revenues for hardware and shipping are recognized at the time of delivery and revenues for services are recognized ratably over the service. The Company recognizes revenue for hardware based on delivery terms to the retailer and revenue for service is deferred for the delay period and recognized ratably over the remaining access right period.

Revenues from access rights renewals and mobile apps represents revenues from customers purchasing rights to access our servers beyond the access right period included in a magicJack device or magicJack service. The extended access right ranges from one to five years. These fees charged to customers are initially deferred and recognized as revenue ratably over the extended access right period. Revenues from access rights granted to users of the magicApp, magicJack Connect App and magicJack for Business are recognized ratably over the access right period.

Revenues from the sale of other magicJack related products are revenues recognized from the sale of other items related to the magicJack devices and access right renewals the Company offers its customers, including porting fees charged to customers to port their existing phone number to a magicJack device or services, fees charged for customer to select a custom, vanity or Canadian phone number and fees charged to customers to change their existing number. These revenues are recognized at the time of sale.

Prepaid minutes revenues are primarily from the usage and expiration of international prepaid minutes, net of chargebacks. Revenues from prepaid minutes are recognized as minutes are used.

Revenues from access and wholesale charges are generated from access fees charged to other telecommunication carriers or providers for Interexchange Carriers (“IXC”) calls terminated to the Company’s end-users, and other fees charged to telecommunication carriers or providers for origination of calls to their 800-numbers. These revenues are recorded based on rates set forth in the respective state and federal tariffs or negotiated contract rates, less provisions for billing adjustments. Revenues from access and wholesale charges are recognized as calls are terminated to the network.

UCaaS revenues are recurring monthly service revenue from sales of its hosted services. Customers are billed monthly in advance for these recurring services and in arrears for one time service charges and other certain usage charges. UCaaS revenues also includes non-recurring revenue from the sale of hardware and network equipment. Revenues for recurring monthly service are recorded in the period the services are provided over the term of the respective customer agreements and revenue from the sale of hardware and network equipment is recognized in the period that the equipment is delivered.

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.

***Allowance for Doubtful Accounts.*** We maintain an allowance for doubtful accounts for estimated losses inherent in our accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and

the customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The bad debt expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statements of income.

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

Goodwill includes the excess of the purchase price over the fair value of net assets acquired in a business combinations and the acquisition of noncontrolling interests. The Codification requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates four reporting units, which are the same as its reporting segments described in Note 22 to the consolidated financial statements. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If we perform the detailed qualitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (step 2) to measure such impairment. In 2018, we performed a qualitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test and concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

In accordance with the Codification, the Company reviews the carrying value of its intangibles, which is comprised of tradenames and customer lists, and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. During the year ended December 31, 2018, the Company recognized impairment of intangibles in the amount of \$1.1 million related to the tradename of Wunderlich Securities, Inc. In June 2018, the Company changed the name Wunderlich Securities, Inc. to B. Riley Wealth Management, Inc. This impairment charge is included in restructuring charge in our consolidated statements of income.

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

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.

Investments in partnership interests include investments in private equity partnerships that primarily invest in equity securities, bonds, and direct lending funds. We also invest in priority investment funds and the underlying securities held by these funds are primarily corporate and asset-backed fixed income securities and restrictions exist on the redemption of amounts invested by the Company. The Company's partnership and investment fund interests are valued based on the Company's proportionate share of the net assets of the partnerships and funds; the value for these investments are derived from the most recent statements received from the general partner or fund administrator. These partnership and investment fund interests are valued at net asset value ("NAV") in accordance with ASC "Topic 820: Fair Value Measurements."

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

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

In June 2018, the Company adopted the 2018 Employee Stock Purchase Plan ("Purchase Plan") which allows eligible employees to purchase common stock through payroll deductions as a price that is 15% of the market value of the common stock on the last day of the offering period. In accordance with the provisions of ASC 718, "Compensation – Stock Compensation" ("ASC 718"), the Company is required to recognize compensation expense relating to shares offered under the Purchase Plan.

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

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. As a result of the common stock offering that was completed on June 5, 2014, the Company had a more than 50% ownership shift in accordance with Internal Revenue Code Section 382. Accordingly, the Company is limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company's actual taxable income. As of December 31, 2018, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act revised the U.S. corporate income tax by, among other things, lowering the federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, providing an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creating new taxes on certain foreign sourced earnings. We recorded a provisional tax expense of \$13,052, related to the remeasurement of our net deferred tax assets to reflect the reduction in the corporate income tax rate and tax expense related to non-U.S. activities resulting from the Tax Act. During the fourth quarter of 2018, the Company completed its accounting for the provisional amounts recognized at December 31, 2017 and the impact was not significant. See Note 15 to the accompanying financial statements for additional information.

### ***Recent Accounting Pronouncements***

In August 2018, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2018-13: *Fair Value Measurement (Topic 820)* ("ASU 2018-13"). The amendments in this update change the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. The Company early adopted ASU 2018-13 in the third quarter of 2018 and the adoption did not have a material impact on



our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05: *Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments in this update provide guidance on when to record and disclose provisional amounts for certain income tax effects of the Tax Reform Act. The amendments also require any provisional amounts or subsequent adjustments to be included in net income from continuing operations. This ASU also discusses required disclosures that an entity must make with regard to the Tax Reform Act. This ASU is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company has adopted this standard and will continue to evaluate indicators that may give rise to a change in our tax provision as a result of the Tax Reform Act. See Note 15 to the accompanying financial statements for additional information on the Tax Reform Act.

In February 2016, FASB issued ASU 2016-02: *Leases (Topic 842)* which requires a lessee to recognize a right-of-use (ROU) asset and lease liability on the balance sheet for all leases with a term longer than 12 months and provide enhanced disclosures. We will adopt the new standard effective January 1, 2019 using a modified retrospective method and will not restate comparative periods. We expect to elect the 'package of practical expedients,' which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our real estate operating leases; and (2) providing significant new disclosures about our leasing activities. On adoption, we currently expect to recognize lease liabilities of approximately \$67,535 with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. We are substantially complete with our implementation efforts.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that provides for the reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Reform Act. The accounting update is effective for the fiscal year beginning after December 15, 2018 and early adoption is permitted. The accounting update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. We are currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our financial condition and results of operations.

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

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

On January 1, 2018, we adopted ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”) using the retrospective method which requires adjustment to prior periods in the statement of cash flows. ASU 2016-18 clarifies how restricted cash should be presented on the statement of cash flows and requires companies to include restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period totals on the statement of cash flows. Restricted cash previously classified under investing activities is now included in the reconciliation of beginning and ending cash on the statement of cash flows. The adoption of ASU 2016-18 did not have a material impact on the our financial condition and results of operations.

On January 1, 2018, we adopted ASC 606 – *Revenue from Contracts with Customers* using the modified retrospective method and the impact was determined to be immaterial on our consolidated financial statements. The new revenue standard was applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods. See Note 13 to the accompanying financial statements for additional information on the adoption of this standard.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

B. Riley's primary exposure to market risk consists of risk related to changes in interest rates. B. Riley has not used derivative financial instruments for speculation or trading purposes.

### ***Interest Rate Risk***

Our primary exposure to market risk consists of risk related to changes in interest rates. We utilize borrowings under our senior notes payable and credit facilities to fund costs and expenses incurred in connection with our acquisitions and retail liquidation engagements. Borrowings under our senior notes payable are at fixed interest rates and borrowings under our credit facilities bear interest at a floating rate of interest. In our portfolio of securities owned we invest in loans receivable that primarily bear interest at a floating rate of interest.

The primary objective of our investment activities is to preserve capital for the purpose of funding operations while at the same time maximizing the income we receive from investments without significantly increasing risk. To achieve these objectives, our investments allow us to maintain a portfolio of cash equivalents, short-term investments through a variety of securities owned that primarily includes common stocks, loans receivable and investments in partnership interests. Our cash and cash equivalents through December 31, 2018 included amounts in bank checking and liquid money market accounts. We may be exposed to interest rate risk through trading activities in convertible and fixed income securities as well as U.S. Treasury securities, however, based on our daily monitoring of this risk, we believe we currently have limited exposure to interest rate risk in these activities.

### ***Foreign Currency Risk***

The majority of our operating activities are conducted in U.S. dollars. Revenues generated from our foreign subsidiaries totaled \$1.3 million for the year ended December 31, 2018 or less than 1% of our total revenues of \$423.0 million during the year ended December 31, 2018. The financial statements of our foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. We include gains and losses resulting from foreign currency transactions in income, while we exclude those resulting from translation of financial statements from income and include them as a component of accumulated other comprehensive income (loss). Transaction gains (losses), which were included in our consolidated statements of income, amounted to a gain (loss) of approximately \$1.3 million, (\$0.8) million and (\$0.8) million during the years ended December 31, 2018, 2017 and 2016, respectively. We may be exposed to foreign currency risk; however, our operating results during the year ended December 31, 2018 included \$1.3 million of revenues from our foreign subsidiaries and a 10% appreciation of the U.S. dollar relative to the local currency

exchange rates would result in a \$0.1 million increase in our operating income and a 10% depreciation of the U.S. dollar relative to the local currency exchange rates would have resulted in a net decrease in our operating income of approximately \$0.1 million for the year ended December 31, 2018.

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

## **Item 9A. CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon the foregoing evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2018 our disclosure controls and procedures were effective at the reasonable assurance level.

### ***Changes in Internal Control over Financial Reporting***

On November 14, 2018, we completed the acquisition of magicJack. We are in the process of integrating magicJack and will be conducting an evaluation of internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002. Excluding the magicJack acquisition, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Report of Management on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Management has excluded from its assessment of internal control over financial reporting at December 31, 2018 the internal control over financial reporting of magicJack and their subsidiaries, which we acquired in purchase business combinations on November 14, 2018. magicJack's total assets and total revenues represent 9.5% and 2.2%, respectively, of our related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Our independent registered public accounting firm, Marcum LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2018, as stated in their report which is included in the Financial Statements of this Annual Report on Form 10-K.

### ***Limitations on Effectiveness of Controls and Procedures***

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and

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

**Item 9B. OTHER INFORMATION**

None.

## **PART III**

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2018.

### **Item 11. EXECUTIVE COMPENSATION**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2018.

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

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2018.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANACTIONS, AND DIRECTOR INDEPENDENCE**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2018.

### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information called for by this item is hereby incorporated by reference from our definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2018.



**PART IV****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. *Financial Statements.* The Company's Consolidated Financial Statements as of December 31, 2018 and 2017 and for each of the three years in the year ended December 31, 2018 and the notes thereto, together with the report of the independent auditors on those Consolidated Financial Statements and the effectiveness of internal control over financial reporting of the Company are hereby filed as part of this report, beginning on page F-1.

2. *Financial Statement Schedules.*

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

(b) Exhibits and Index to Exhibits, below.

**Exhibit Index**

Exhibit No.	Description	Incorporated by Reference		
		Form	Exhibit	Filing Date
<u>2.1+</u>	<u>Agreement and Plan of Merger, dated as of May 4, 2016, by and among the registrant, Unify Merger Sub, Inc., and United Online, Inc.</u>	<u>8-K</u>	<u>2.1</u>	<u>5/6/2016</u>
<u>2.2+</u>	<u>Amended and Restated Agreement and Plan of Merger, dated as of March 15, 2017, and effective as of February 17, 2017, by and among FBR &amp; Co., the registrant and BRC Merger Sub, LLC.</u>	<u>S-4/A (File No. 333-216763)</u>	<u>Appendix A</u>	<u>5/1/2017</u>
<u>2.3+</u>	<u>Merger Agreement, dated as of May 17, 2017, by and among the registrant, Foxhound Merger Sub, Inc., Wunderlich Investment Company, Inc. and the Stockholder Representative.</u>	<u>8-K</u>	<u>2.1</u>	<u>5/18/2017</u>

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<u>2.4+</u>	<u>Agreement and Plan of Merger, dated as of November 9, 2017, by and among the registrant, B. R. Acquisition Ltd. and magicJack VocalTec Ltd.</u>	<u>8-K</u>	<u>2.1</u>	<u>11/9/2017</u>
<u>2.5</u>	<u>Amendment No. 1, dated May 8, 2018, to the Agreement and Plan of Merger, dated November 9, 2017, by and among B. Riley Financial, Inc., B. R. Acquisition Ltd. and magicJack VocalTec Ltd.</u>	<u>8-K</u>	<u>2.2</u>	<u>11/20/2018</u>
<u>2.6</u>	<u>Limited Waiver and Agreement, dated as of November 8, 2018, by and between B. Riley Financial, Inc. and magicJack VocalTec Ltd.</u>	<u>8-K</u>	<u>2.3</u>	<u>11/20/2018</u>
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation, as amended, dated as of August 17, 2015.</u>	<u>10-Q</u>	<u>3.1</u>	<u>8/3/2018</u>
<u>3.2</u>	<u>Amended and Restated Bylaws, dated as of November 6, 2014.</u>	<u>10-Q</u>	<u>3.6</u>	<u>11/6/2014</u>
<u>4.1</u>	<u>Form of common stock certificate.</u>	<u>10-K</u>	<u>4.1</u>	<u>3/30/2015</u>

4.2	<u>Base Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.1	<u>11/2/2016</u>
4.3	<u>First Supplemental Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.2	<u>11/2/2016</u>
4.4	<u>Form of 7.50% Senior Note due 2021.</u>	8-K	4.2	<u>11/2/2016</u>
4.5	<u>Second Supplemental Indenture, dated as of May 31, 2017, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.1	<u>5/31/2017</u>
4.6	<u>Form of 7.50% Senior Note due 2027.</u>	8-K	4.1	<u>5/31/2017</u>
4.7	<u>Third Supplemental Indenture, dated as of December 13, 2017, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.1	<u>12/13/2017</u>
4.8	<u>Form of 7.25% Senior Note due 2027.</u>	8-K	4.1	<u>12/13/2017</u>
4.9	<u>Fourth Supplemental Indenture, dated as of May 17, 2018, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.1	<u>5/17/2018</u>
4.10	<u>Form of 7.375% Senior Note due 2023.</u>	8-K	4.2	<u>5/17/2018</u>
4.11	<u>Fifth Supplemental Indenture, dated as of September 11, 2018, by and between the registrant and U.S. Bank National Association, as Trustee.</u>	8-K	4.1	<u>9/11/2018</u>
4.12	<u>Form of 6.875% Senior Note due 2023.</u>	8-K	4.2	<u>9/11/2018</u>
10.1	<u>Security Agreement, dated as of October 21, 2008, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association (Successor to Wells Fargo Retail Finance, LLC).</u>	10-Q	10.8	<u>8/31/2009</u>
10.2	<u>Escrow Agreement, dated as of July 31, 2009, by and among Alternative Asset Management Acquisition Corp., the registrant, Andrew Gumaer, as the Member Representative, and Continental Stock Transfer &amp; Trust Company.</u>	8-K	10.6	<u>8/6/2009</u>
10.3#	<u>Form of Director and Officer Indemnification Agreement.</u>	8-K	10.11	<u>8/6/2009</u>
10.4	<u>Loan and Security Agreement (Accounts Receivable &amp; Inventory Line of Credit), dated as of May 17, 2011, by and between BFI Business Finance and Great American Group Advisory &amp; Valuation Services, LLC.</u>	8-K	10.1	<u>5/26/2011</u>
10.5	<u>Second Amended and Restated Credit Agreement, dated as of July 15, 2013, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association.</u>	8-K	10.1	<u>7/19/2013</u>
10.6		8-K	10.2	<u>7/19/2013</u>

Third Amended and Restated Guaranty, dated as of July 15, 2013, by and between the registrant and Great American Group, LLC, in favor of Wells Fargo Bank, National Association.

<u>10.7</u>	<u>Uncommitted Liquidation Finance Agreement, dated as of March 19, 2014, by and among GA Asset Advisors Limited, each special purpose vehicle affiliated to GA Asset Advisors Limited which accedes to such agreement, and Burdale Financial Limited.</u>	8-K	<u>10.1</u>	<u>3/25/2014</u>
<u>10.8</u>	<u>Master Guarantee and Indemnity, dated as of March 19, 2014, by and among GA Asset Advisors Limited, the registrant, Great American Group, LLC, Great American Group WF, LLC, Burdale Financial Limited and Wells Fargo Bank, National Association.</u>	8-K	<u>10.2</u>	<u>3/25/2014</u>
<u>10.9#</u>	<u>Employment Agreement, dated as of May 19, 2014, by and between the registrant and Bryant Riley.</u>	8-K	<u>10.5</u>	<u>5/19/2014</u>
<u>10.10#</u>	<u>Amended and Restated Employment Agreement, dated as of May 19, 2014, by and between the registrant and Andrew Gumaer.</u>	8-K	<u>10.6</u>	<u>5/19/2014</u>
<u>10.11</u>	<u>First Amendment to Credit Agreement and Limited Consent and Waiver, dated as of May 28, 2014, by and among Wells Fargo Bank, National Association, Great American Group WF, LLC, Great American Group, Inc. and Great American Group, LLC.</u>	10-Q	<u>10.8</u>	<u>8/14/2014</u>
<u>10.12</u>	<u>Third Amendment to Credit Agreement, dated as of February 5, 2015, by and between Great American Group WF, LLC and Wells Fargo Bank, National Association.</u>	10-Q	<u>10.7</u>	<u>5/7/2015</u>
<u>10.13</u>	<u>Fourth Amendment to Credit Agreement, dated as of February 19, 2015, by and between Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association.</u>	10-Q	<u>10.8</u>	<u>5/7/2015</u>
<u>10.14#</u>	<u>Amended and Restated 2009 Stock Incentive Plan.</u>	10-Q	<u>10.1</u>	<u>8/11/2015</u>
<u>10.15#</u>	<u>Amended and Restated 2009 Stock Incentive Plan – Form of Restricted Stock Unit Agreement.</u>	10-Q	<u>10.2</u>	<u>8/11/2015</u>
<u>10.16#</u>	<u>Amended and Restated 2009 Stock Incentive Plan – Stock Bonus Program and Form of Stock Bonus Award Agreement.</u>	10-Q	<u>10.3</u>	<u>8/11/2015</u>
<u>10.17#</u>	<u>Employment Agreement, dated as of April 13, 2015, by and between the registrant and Alan N. Forman.</u>	10-Q	<u>10.4</u>	<u>8/11/2015</u>
<u>10.18#</u>	<u>B. Riley Financial, Inc. Management Bonus Plan.</u>	8-K	<u>10.1</u>	<u>8/18/2015</u>
<u>10.19</u>	<u>Fifth Amendment to Credit Agreement, dated June 10, 2016, by and among Great American Group WF, LLC, GA Retail, Inc. and Wells Fargo Bank, National Association.</u>	10-Q	<u>10.1</u>	<u>8/5/2016</u>
<u>10.20</u>	<u>Sixth Amendment and Joinder under Credit Facility among Great American Group WF, LLC and Wells Fargo Bank, National Association as Lender October 5, 2016.</u>	10-Q	<u>10.1</u>	<u>11/14/2016</u>



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<u>10.21</u>	<u>Underwriting Agreement, dated as of October 27, 2016, by and among the registrant, Wunderlich Securities, Inc. and Compass Point Research &amp; Trading LLC, as representative of the several underwriters named therein.</u>	<u>8-K</u>	<u>1.1</u>	<u>11/2/2016</u>
<u>10.22#</u>	<u>Employment Agreement, dated as of February 17, 2017, by and among B. Riley &amp; Co., LLC, Richard J. Hendrix and the registrant.</u>	<u>8-K</u>	<u>10.1</u>	<u>6/1/2017</u>
<u>10.23</u>	<u>Credit Agreement, dated as of April 13, 2017, by and among United Online, Inc., the subsidiaries of United Online, Inc. from time to time party thereto and Banc of California, N.A.</u>	<u>10-Q</u>	<u>10.1</u>	<u>5/10/2017</u>
<u>10.24</u>	<u>Security and Pledge Agreement, dated as of April 13, 2017, by and among United Online, Inc., the subsidiaries of United Online, Inc. from time to time party thereto and Banc of California, N.A.</u>	<u>10-Q</u>	<u>10.2</u>	<u>8/8/2017</u>
<u>10.25</u>	<u>Unconditional Guaranty, dated as of April 13, 2017, by the registrant in favor of Banc of California, N.A..</u>	<u>10-Q</u>	<u>10.3</u>	<u>8/8/2017</u>
<u>10.26</u>	<u>Seventh Amendment to Credit Agreement, dated as of April 21, 2017, by and among Great American Group WF, LLC, GA Retail, Inc., GA Retail Canada, ULC, Wells Fargo Bank, National Association and Wells Fargo Capital Finance Corporation Canada.</u>	<u>8-K</u>	<u>10.1</u>	<u>4/27/2017</u>
<u>10.27#</u>	<u>Employment Agreement, dated as of May 17, 2017, by and among the registrant, Wunderlich Investment Company, Inc. and Gary K. Wunderlich, Jr.</u>	<u>8-K</u>	<u>10.2</u>	<u>7/5/2017</u>
<u>10.28</u>	<u>Underwriting Agreement, dated as of May 23, 2017, by and among the registrant, FBR Capital Markets &amp; Co. and B. Riley &amp; Co. LLC as representatives of the several underwriters named therein.</u>	<u>8-K</u>	<u>1.1</u>	<u>5/24/2017</u>
<u>10.29</u>	<u>At Market Issuance Sales Agreement, dated as of June 28, 2017, by and between the registrant and FBR Capital Markets &amp; Co.</u>	<u>8-K</u>	<u>1.1</u>	<u>6/28/2017</u>
<u>10.30</u>	<u>Warrant Agreement, dated as of July 3, 2017, by and between the registrant and Continental Stock Transfer &amp; Trust Company.</u>	<u>8-K</u>	<u>10.1</u>	<u>7/5/2017</u>
<u>10.31#</u>	<u>Registration Rights Agreement, dated as of July 3, 2017, by and among the registrant and the persons listed on the signature pages thereto.</u>	<u>8-K</u>	<u>10.4</u>	<u>7/5/2017</u>
<u>10.32</u>	<u>Consulting Services Agreement, dated as of July 3, 2017, by and between Richard J. Hendrix and FBR Capital Markets &amp; Co.</u>	<u>10-Q</u>	<u>10.9</u>	<u>8/8/2017</u>
<u>10.33#</u>	<u>Severance Agreement and General Release, dated as of July 3, 2017, by and among the registrant, Richard J. Hendrix, FBR Capital Markets &amp; Co. and B. Riley &amp; Co., LLC.</u>	<u>10-Q</u>	<u>10.10</u>	<u>8/8/2017</u>

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<u>10.34</u>	<u>Underwriting Agreement, dated as of December 6, 2017, by and among the registrant and B. Riley FBR, Inc., as representative of the several underwriters named therein.</u>	<u>8-K</u>	<u>1.1</u>	<u>12/6/2017</u>
<u>10.35</u>	<u>At Market Issuance Sales Agreement, dated December 18, 2017, by and between the registrant and B. Riley FBR, Inc.</u>	<u>8-K</u>	<u>1.1</u>	<u>12/19/2017</u>
<u>10.36#</u>	<u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Bryant R. Riley.</u>	<u>8-K</u>	<u>10.1</u>	<u>1/5/2018</u>
<u>10.37#</u>	<u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Thomas J. Kelleher.</u>	<u>8-K</u>	<u>10.2</u>	<u>1/5/2018</u>
<u>10.38#</u>	<u>Employment Agreement, dated as of January 1, 2018, by and between Great American Group, LLC, and Andrew Gumaer.</u>	<u>8-K</u>	<u>10.3</u>	<u>1/5/2018</u>
<u>10.39#</u>	<u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Phillip J. Ahn.</u>	<u>8-K</u>	<u>10.4</u>	<u>1/5/2018</u>
<u>10.40#</u>	<u>Employment Agreement, dated as of January 1, 2018, by and between the registrant and Alan N. Forman.</u>	<u>10-K</u>	<u>10.42</u>	<u>3/14/2018</u>
<u>10.41</u>	<u>Debt Conversion and Purchase and Sale Agreement, dated January 12, 2018, by and among the registrant, bebe stores, inc. and The Manny Mashouf Living Trust.</u>	<u>8-K</u>	<u>10.1</u>	<u>1/16/2018</u>
<u>10.42</u>	<u>Underwriting Agreement, dated as of May 14, 2018, by and among the registrant and B. Riley FBR, Inc., as representative of the several underwriters named therein.</u>	<u>8-K</u>	<u>1.1</u>	<u>5/17/2018</u>
<u>10.43</u>	<u>At Market Issuance Sales Agreement, dated June 5, 2018, by and between the registrant and B. Riley FBR, Inc.</u>	<u>8-K</u>	<u>1.1</u>	<u>6/5/2018</u>
<u>10.44</u>	<u>\$800.0 Million Senior Secured Term Loan Facility Commitment Letter, dated as of June 17, 2018 by and among the registrant, Guggenheim Corporate Funding, LLC and Vintage Rodeo Parent, LLC.</u>	<u>8-K</u>	<u>10.1</u>	<u>6/20/2018</u>
<u>10.45</u>	<u>Equity Commitment Letter, dated as of June 17, 2018.</u>	<u>8-K</u>	<u>10.2</u>	<u>6/20/2018</u>
<u>10.46</u>	<u>Vintage Rodeo, L.P. Subscription Agreement and Questionnaire, dated as of June 17, 2018.</u>	<u>8-K</u>	<u>10.3</u>	<u>6/20/2018</u>
<u>10.47</u>	<u>Side Letter re Subscription, dated as of June 17, 2018 by and between the registrant and Vintage Rodeo, L.P.</u>	<u>8-K</u>	<u>10.4</u>	<u>6/20/2018</u>
<u>10.48</u>	<u>Limited Guarantee, dated as of June 17, 2018 by and among the registrant, Vintage RTO, L.P. and Rodeo.</u>	<u>8-K</u>	<u>10.5</u>	<u>6/20/2018</u>
<u>10.49</u>	<u>Mutual Indemnity/Contribution Agreement, dated as of June 17, 2018 by and among the registrant, Vintage RTO, L.P. and Samjor Family, LP.</u>	<u>8-K</u>	<u>10.6</u>	<u>6/20/2018</u>
<u>10.50#</u>		<u>8-K</u>	<u>10.1</u>	<u>7/16/2018</u>



Employment Agreement, dated as of July 10, 2018, by and between the registrant and Kenneth M. Young.

<u>10.51#</u>	<u>Employment Agreement, dated as of July 10, 2018, by and between B. Riley FBR, Inc. and Andrew Moore.</u>	8-K	<u>10.2</u>	<u>7/16/2018</u>
<u>10.52#</u>	<u>Amendment No. 1 to Employment Agreement, dated as of July 10, 2018, by and between the registrant and Bryant R. Riley.</u>	8-K	<u>10.3</u>	<u>7/16/2018</u>
<u>10.53#</u>	<u>Amendment No. 1 to Employment Agreement, dated as of July 10, 2018, by and between the registrant and Thomas Kelleher.</u>	8-K	<u>10.4</u>	<u>7/16/2018</u>
<u>10.54#</u>	<u>2018 Employee Stock Purchase Plan.</u>	8-K	<u>10.1</u>	<u>7/31/2018</u>
<u>10.55</u>	<u>Underwriting Agreement, dated as of September 6, 2018, by and among the Company and B. Riley FBR, Inc., as representative of the several underwriters named therein.</u>	8-K	<u>1.1</u>	<u>9/11/2018</u>
<u>10.56</u>	<u>At Market Issuance Sales Agreement, dated December 18, 2018, by and between the registrant and B. Riley FBR, Inc.</u>	8-K	<u>1.1</u>	<u>12/18/2018</u>
<u>10.57</u>	<u>Credit Agreement, dated December 19, 2018.</u>	8-K	<u>10.1</u>	<u>12/27/2018</u>
<u>10.58</u>	<u>Security and Pledge Agreement, dated December 19, 2018.</u>	8-K	<u>10.2</u>	<u>12/27/2018</u>
<u>10.59</u>	<u>Unconditional Guaranty and Pledge Agreement by B. Riley Principal Investments, LLC, dated December 19, 2018.</u>	8-K	<u>10.3</u>	<u>12/27/2018</u>
<u>10.60</u>	<u>Unconditional Guaranty by the registrant, dated December 19, 2018.</u>	8-K	<u>10.3</u>	<u>12/27/2018</u>
<u>21.1*</u>	<u>Subsidiary List</u>			
<u>23.1*</u>	<u>Consent of Marcum LLP</u>			
<u>31.1*</u>	<u>Certification of Co-Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934</u>			
<u>31.2*</u>	<u>Certification of Co-Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934</u>			
<u>31.3*</u>	<u>Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934</u>			
<u>32.1**</u>	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			
<u>32.2**</u>	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002</u>			
<u>32.3**</u>				

Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\*Furnished herewith.

Schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby  
+ agrees to furnish a copy of any omitted schedules to the Securities and Exchange Commission upon request.

# Management contract or compensatory plan or arrangement.

**Item 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

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

B. Riley Financial, Inc.

Date: March 5, 2019 / s / PHILLIP J. AHN  
(Phillip J. Ahn, Chief Financial Officer and Chief Operating Officer)

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

Signature	Title	Date
/s/ BRYANT R. RILEY (Bryant R. Riley)	Co-Chief Executive Officer Chairman of the Board (Principal Executive Officer)	March 5, 2019
/s/ THOMAS J. KELLEHER (Thomas J. Kelleher)	Co-Chief Executive Officer Director	March 5, 2019
/s/ PHILLIP J. AHN (Phillip J. Ahn)	Chief Financial Officer Chief Operating Officer (Principal Financial Officer)	March 5, 2019
/s/ HOWARD E. WEITZMAN (Howard E. Weitzman)	Chief Accounting Officer (Principal Accounting Officer)	March 5, 2019
/s/ ROBERT D'AGOSTINO (Robert D'Agostino)	Director	March 5, 2019
/s/ ROBERT L. ANTIN (Robert L. Antin)	Director	March 5, 2019
/s/ ANDREW GUMAER (Andrew Gumaer)	Director	March 5, 2019
/s/ MICHAEL J. SHELDON (Michael J. Sheldon)	Director	March 5, 2019

/s/ TODD D. SIMS  
(Todd D. Sims)

Director

March 5, 2019

/s/ MIKEL H. WILLIAMS  
(Mikel H. Williams)

Director

March 5, 2019

**B. RILEY FINANCIAL, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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<u>Consolidated Balance Sheets</u>	<u>F-4</u>
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of

B. Riley Financial, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of B. Riley Financial, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated March 5, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to



those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum llp

We have served as the Company's auditor since 2009.

Marcum llp

New York, NY

March 5, 2019

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

To the Shareholders and Board of Directors of

B. Riley Financial, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited B. Riley Financial, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets as of December 31, 2018 and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018 of the Company and our report dated March 5, 2019 expressed an unqualified opinion on those financial statements.

As described in "Report of Management on Internal Control over Financial Reporting", management has excluded its subsidiary, magicJack VocalTec Ltd. ("magicJack"), from its assessment of internal control over financial reporting as of December 31, 2018 because this entity was acquired by the Company in purchase business combination during 2018. We have also excluded magicJack from our audit of internal control over financial reporting. This subsidiary's combined total assets and total revenues represent approximately 9.5% and 2.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Report of

Management on Internal Control over Financial Reporting.” Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ Marcum llp

We have served as the Company's auditor since 2009.

Marcum llp

New York, NY

March 5, 2019

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**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except par value)**

	December 31, 2018	December 31, 2017
Assets		
Assets		
Cash and cash equivalents	\$ 179,440	\$ 132,823
Restricted cash	838	19,711
Due from clearing brokers	37,738	31,479
Securities and other investments owned, at fair value	273,577	145,360
Securities borrowed	931,346	807,089
Accounts receivable, net	42,123	20,015
Due from related parties	1,729	5,689
Advances against customer contracts	—	5,208
Loans receivable	38,794	—
Prepaid expenses and other assets	79,477	22,605
Property and equipment, net	15,523	11,977
Goodwill	223,368	98,771
Other intangible assets, net	91,358	56,948
Deferred income taxes	42,399	29,229
Total assets	\$ 1,957,710	\$ 1,386,904
Liabilities and Equity		
Liabilities		
Accounts payable	\$ 5,646	\$ 2,650
Accrued expenses and other liabilities	108,662	71,685
Deferred revenue	69,066	3,141
Due to partners	2,428	1,578
Securities sold not yet purchased	37,623	28,291
Securities loaned	930,522	803,371
Mandatorily redeemable noncontrolling interests	4,633	4,478
Notes payable	1,550	2,243
Term loan	79,166	—
Senior notes payable	459,754	203,621
Total liabilities	1,699,050	1,121,058
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; 100,000,000 shares authorized; 26,603,355 and 26,569,462 issued and outstanding as of December 31, 2018 and December 31, 2017,	2	2

respectively

Additional paid-in capital	258,638	259,980
Retained earnings	1,579	6,582
Accumulated other comprehensive loss	(2,161 )	(534 )
Total B. Riley Financial, Inc. stockholders' equity	258,058	266,030
Noncontrolling interests	602	(184 )
Total equity	258,660	265,846
Total liabilities and equity	\$ 1,957,710	\$ 1,386,904

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

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**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Dollars in thousands, except share data)**

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Services and fees	\$390,555	\$304,841	\$164,235
Interest income - Securities lending	31,798	17,028	—
Sale of goods	638	307	26,116
Total revenues	422,991	322,176	190,351
Operating expenses:			
Direct cost of services	51,580	55,501	40,857
Cost of goods sold	800	398	14,755
Selling, general and administrative expenses	293,682	213,008	82,127
Restructuring charge	8,506	12,374	3,887
Interest expense - Securities lending	23,039	12,051	—
Total operating expenses	377,607	293,332	141,626
Operating income	45,384	28,844	48,725
Other income (expense):			
Interest income	1,326	420	318
Income (loss) from equity investments	7,986	(437)	—
Interest expense	(33,393)	(8,382)	(1,996)
Income before income taxes	21,303	20,445	47,047
Provision for income taxes	(4,903)	(8,510)	(14,321)
Net income	16,400	11,935	32,726
Net income attributable to noncontrolling interests	891	379	11,200
Net income attributable to B. Riley Financial, Inc.	\$15,509	\$11,556	\$21,526
Basic income per share	\$0.60	\$0.50	\$1.19
Diluted income per share	\$0.58	\$0.48	\$1.17
Weighted average basic shares outstanding	25,937,305	23,181,388	18,106,621
Weighted average diluted shares outstanding	26,764,856	24,290,904	18,391,852

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

**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Dollars in thousands)**

	Year Ended December 31,		
	2018	2017	2016
Net income	\$ 16,400	\$ 11,935	\$ 32,726
Other comprehensive (loss) income:			
Change in cumulative translation adjustment	(1,627 )	1,178	(654 )
Other comprehensive (loss) income, net of tax	(1,627 )	1,178	(654 )
Total comprehensive income	14,773	13,113	32,072
Comprehensive income attributable to noncontrolling interests	891	379	11,200
Comprehensive income attributable to B. Riley Financial, Inc.	\$ 13,882	\$ 12,734	\$ 20,872

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



**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY****(Dollars in thousands, except share data)**

	Preferred Stock Shares	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	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, net of shares withheld for employer taxes	—	104,576	—	(1,156 )	—	—	—	(1,156 )
Offering of common stock, net of offering expenses	—	2,420,980	—	22,759	—	—	—	22,759
Share based payments	—	—	—	2,768	—	—	—	2,768
Dividends on common stock (\$0.28 per share)	—	—	—	—	(5,334 )	—	—	(5,334 )
Net income	—	—	—	—	21,526	—	1,163	22,689
Foreign currency translation adjustment	—	—	—	—	—	(654 )	—	(654 )
Balance, December 31, 2016	—	\$ 19,140,342	\$ 2	\$ 141,170	\$ 9,887	\$(1,712 )	\$ 1,045	\$150,392
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 Dialectic general partner interests on April 13, 2017	—	158,484	—	1,952	—	—	—	1,952

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Issuance of common stock for acquisition of FBR & Co. on June 1, 2017	—	— 4,779,354	—	73,471	—	—	—	73,471
Issuance of common stock and common stock warrants for acquisition of Wunderlich on July 3, 2017	—	— 1,974,812	—	35,381	—	—	—	35,381
Vesting of restricted stock, net of shares withheld for employer taxes	—	— 349,804	—	(3,486 )	—	—	—	(3,486 )
Share based payments	—	— —	—	10,341	—	—	—	10,341
Dividends on common stock (\$0.67 per share)	—	— —	—	—	(14,861)	—	—	(14,861 )
Net income	—	— —	—	—	11,556	—	(307 )	11,249
Distributions to noncontrolling interests	—	— —	—	—	—	—	(922 )	(922 )
Foreign currency translation adjustment	—	— —	—	—	—	1,178	—	1,178
Balance, December 31, 2017	—	\$ — 26,569,462	\$ 2	\$ 259,980	\$ 6,582	\$ (534 )	\$ (184 )	\$ 265,846
Issuance of common stock for acquisition of GlassRatner Advisory & Capital Group LLC	—	— 405,817	—	8,050	—	—	—	8,050
ESPP shares issued and vesting of restricted stock, net of shares withheld for employer taxes	—	— 682,442	—	(3,731 )	—	—	—	(3,731 )
Common shares cancelled - resolution of escrow claim	—	— (21,233 )	—	—	—	—	—	—
Stock repurchased and retired	—	— (1,033,133 )	—	(18,703 )	—	—	—	(18,703 )
Share based payments	—	— —	—	13,042	—	—	—	13,042
Dividends on common stock (\$0.74 per share)	—	— —	—	—	(20,512)	—	—	(20,512 )
Net income	—	— —	—	—	15,509	—	786	16,295
Foreign currency translation adjustment	—	— —	—	—	—	(1,627 )	—	(1,627 )
Balance, December 31, 2018	—	\$ — 26,603,355	\$ 2	\$ 258,638	\$ 1,579	\$ (2,161 )	\$ 602	\$ 258,660

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



**B. RILEY FINANCIAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)**

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$16,400	\$11,935	\$32,726
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	13,809	11,140	4,306
Provision for doubtful accounts	1,308	1,066	710
Share-based compensation	13,042	10,341	2,768
Recovery of key man life insurance	—	(6,000 )	—
Non-cash interest and other	4,068	456	136
Effect of foreign currency on operations	(916 )	(769 )	973
(Income) loss from equity investments	(7,986 )	437	—
Deferred income taxes	1,990	5,729	3,549
Impairment of leaseholds and intangibles, lease loss accrual and loss on disposal of fixed assets	4,142	3,602	—
Income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests	1,222	10,799	3,032
Change in operating assets and liabilities:			
Due from clearing brokers	(6,259 )	3,359	—
Securities and other investments owned	(128,217)	(82,143 )	8,964
Securities borrowed	(124,257)	47,595	—
Accounts receivable and advances against customer contracts	(12,948 )	1,614	(1,847 )
Prepaid expenses and other assets	(24,395 )	(1,506 )	3,699
Accounts payable, accrued payroll and related expenses, accrued value added tax payable and other accrued expenses	3,559	(30,374 )	23,330
Amounts due to/from related parties and partners	4,705	(11,826 )	(2,766 )
Securities sold, not yet purchased	9,332	7,678	133
Deferred revenue	(564 )	(668 )	884
Securities loaned	127,151	(64,255 )	—
Auction and liquidation proceeds payable	—	—	(317 )
Net cash (used in) provided by operating activities	(104,814)	(81,790 )	80,280
Cash flows from investing activities:			
Purchases of loans receivable	(38,794 )	—	—
Acquisition of magicJack, net of cash acquired \$53,875	(89,240 )	—	—
Acquisition of Wunderlich, net of cash acquired \$4,259	—	(25,478 )	—
Cash acquired from acquisition of FBR & Co.	—	15,738	—
Acquisition of other businesses, net of cash acquired	(4,000 )	(2,052 )	—

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Acquisition of United Online, net of cash acquired \$125,542 in 2016	—	(10,381 )	(33,430 )
Purchases of property and equipment and intangible assets	(5,432 )	(825 )	(729 )
Proceeds from key man life insurance	—	6,000	—
Proceeds from sale of property and equipment and intangible assets	37	836	96
Equity investments	(16,640 )	(1,674 )	—
Dividends from equity investments	2,628	—	—
Net cash used in investing activities	(151,441)	(17,836 )	(34,063 )
Cash flows from financing activities:			
Repayment of revolving line of credit	—	—	(272 )
Proceeds from asset based credit facility	300,000	65,987	56,255
Repayment of asset based credit facility	(300,000)	(65,987 )	(56,255 )
Proceeds from notes payable	51,020	—	—
Repayment of notes payable	(51,713 )	(8,336 )	—
Proceeds from participating note payable	—	—	61,400
Payment of participating note payable and contingent consideration	—	(1,250 )	(62,650 )
Proceeds from term loan	80,000	—	—
Proceeds from issuance of senior notes	258,997	179,471	27,664
Payment of debt issuance costs	(7,260 )	(4,289 )	—
ESPP shares and payment of employment taxes on vesting of restricted stock	(3,731 )	(3,486 )	(1,156 )
Dividends paid	(22,684 )	(16,755 )	(5,334 )
Proceeds from issuance of common stock	—	—	22,759
Repurchase of common stock	(18,703 )	—	—
Distribution to noncontrolling interests	(1,067 )	(11,261 )	(2,007 )
Net cash provided by financing activities	284,859	134,094	40,404
Increase in cash, cash equivalents and restricted cash	28,604	34,468	86,621
Effect of foreign currency on cash, cash equivalents and restricted cash	(860 )	2,667	(1,285 )
Net increase in cash, cash equivalents and restricted cash	27,744	37,135	85,336
Cash, cash equivalents and restricted cash, beginning of year	152,534	115,399	30,063
Cash, cash equivalents and restricted cash, end of year	\$180,278	\$152,534	\$115,399
Supplemental disclosures:			
Interest paid	\$50,103	\$18,840	\$376
Taxes paid	\$6,497	\$14,986	\$685

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except share data)**

**NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Nature of Operations*

B. Riley Financial, Inc. and its subsidiaries (collectively the “Company”) provide investment banking and financial services to corporate, institutional and high net worth clients, and asset disposition, valuation and appraisal and capital advisory services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms throughout the United States, Australia, Canada, and Europe and with the acquisitions of United Online, Inc. (“UOL”) on July 1, 2016 and magicJack VocalTec Ltd. (“magicJack”) on November 14, 2018, provide consumer Internet access and cloud communication services.

The Company operates in four operating segments: (i) Capital Markets, through which the Company provides investment banking, corporate finance, securities lending, restructuring, consulting, 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 and magicJack, through which the Company provides consumer Internet access and related subscription services from United Online and cloud communication services primarily through the magicJack devices.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*(a) Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly-owned and majority-owned subsidiaries. The consolidated financial statements also include the accounts of (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. All intercompany accounts and transactions have been eliminated upon consolidation.

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

*(b) Use of Estimates*

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of American ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expense during the reporting period. Estimates are used when accounting for certain items such as valuation of securities, reserves for accounts receivable, 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***

On January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) 606 – *Revenue from Contracts with Customers* using the modified retrospective method and the impact was determined to be immaterial on our consolidated financial statements. The new revenue standard was applied prospectively in the Company’s consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

Revenues are recognized when control of the promised goods or performance obligations for services is transferred to the Company’s customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services.

Revenues from contracts with customers in the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment, and Principal Investments – United Online and magicJack segment are primarily comprised of the following:

**Capital Markets Segment** - 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. Fees from underwriting activities are recognized as revenues when the performance obligation for the services related to the underwriting transaction is satisfied under the terms of the engagement and is not subject to any other contingencies. Fees are also earned from financial advisory and consulting services rendered in connection with client mergers, acquisitions, restructurings, recapitalizations and other strategic transactions. The performance obligation for financial advisory services is satisfied over time as work progresses on the engagement and services are delivered to the client. The performance obligation for financial advisory services may also include success and performance based fees which are recognized as revenue when the performance obligation is no longer constrained and it is not probable that the revenue recognized would be subject to significant reversal in a future period. Generally, it is probable that the revenue recognized is no longer subject to significant reversal upon the closing of the investment banking transaction.

Fees from wealth and asset management services consist primarily of investment management fees that are recognized over the period the performance obligation for 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 are recognized when the performance obligation is satisfied and include commissions resulting from equity securities transactions executed as agent or principal and are recorded on a trade date basis and fees paid for equity research.

Revenues from other sources in the Capital Markets segment is primarily comprised of (i) interest income from loans receivable and securities lending activities, (ii) related net trading gains and losses from market making activities, the commitment of capital to facilitate customer orders, (iii) trading activities from the Company's Principal Investments in equity and other securities for the Company's account, and (iv) other income.

Interest income from securities lending activities consists 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 or securities borrowed and securities loaned.

Other revenues include (i) net trading gains and losses from market making activities in the Company's fixed income group, (ii) carried interest from the Company's asset management recognized as earnings from financial assets within the scope of ASC 323 - *Investments - Equity Method and Joint Ventures*, and therefore will not be in the scope of ASC 606 - *Revenue from Contracts with Customers*. In accordance with ASC 323 - *Investments - Equity Method and Joint Ventures*, the Company will record equity method income (losses) as a component of investment income based on the change in the Company's proportionate claim on net assets of the investment fund, including performance-based capital allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each fund's governing agreements, and (iii) other miscellaneous income

**Auction and Liquidation segment** - Commission and fees earned on the sale of goods at Auction and Liquidation sales are recognized when evidence of a contract or arrangement exists, the transaction price has been determined, and the performance obligation has been satisfied when control of the product and risks of ownership has been transferred to the buyer. The commission and fees earned for these services are included in revenues in the accompanying consolidated statements of income. Under these types of arrangements, revenues also include contractual reimbursable costs.

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 over time when the performance obligation is satisfied. The Company generally uses the cost-to-cost measure of progress for the Company's contracts because it best depicts the transfer of services to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill the contract include labor and other direct costs related to the contract. Due to the nature of the guarantees and performance obligations under these contracts, the estimation of revenue that is ultimately earned is complex and subject to many variables and requires significant judgment. It is common for these contracts to contain provisions that can either increase or decrease the transaction price upon completion of the Company's performance obligations under the contract. Estimated amounts are included in the transaction price at the most likely amount it is probable that a significant reversal of revenue will not occur. The Company estimates of variable consideration and determination of whether or not to include estimated amounts in the transaction price are based on an assessment of the Company's anticipated performance under the contract taking into consideration all historical, current and forecasted information that is reasonably available to the Company. Costs that directly relate to the contract and expected to be recoverable are capitalized as an asset and included in advances against customer contracts in the accompanying consolidated balance sheets. These costs are amortized as the services are transferred to the customer over the contract period, which generally does not exceed six months, and the expense is recognized a component of direct cost of services. If, during the auction or liquidation sale, the Company determines that the total costs to be incurred on a performance obligation under a contract exceeds the total estimated revenues to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

**Valuation and Appraisal Segment** - Revenues in the Valuation and Appraisal segment are primarily comprised of fees for Valuation and Appraisal services. Revenues are recognized when the performance obligation is completed and is generally at the point in time upon delivery of the report to the customer. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs.

**Principal Investments – United Online and magicJack Segment** – Revenues in the Principal Investments - United Online and magicJack segment are primarily comprised of services revenue from fees charged to United Online pay accounts; sales revenue from the sale of the magicJack and related devices and access rights; revenues from access rights renewals and mobile apps; prepaid minutes revenues; revenues from access and wholesale charges; service revenue from Unified Communication as a Service (“UCaaS”) hosting services; advertising and other revenues; and products revenues from the sale of magicJack and mobile broadband service devices, including the related shipping and handling and installation fees, if applicable.

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

collectability is probable.

Revenues from sales of the magicJack devices and access rights represent revenues recognized from sales of the magicJack devices to retailers, wholesalers, or direct to customers, net of returns. The transaction price for magicJack devices is allocated between equipment and service based on stand-alone selling prices. Revenues allocated to equipment are recognized when control transfers to the customer, and service revenue is recognized ratably over the service term. The Company estimates the return of direct sales as part of the transaction price using a six month rolling average of historical returns. Revenues for hardware and shipping are recognized at the time of delivery and revenues for services are recognized ratably over the service. The Company recognizes revenue for hardware based on delivery terms to the retailer and revenue for service is deferred for the delay period and recognized ratably over the remaining access right period.

Revenues from access rights renewals and mobile apps represents revenues from customers purchasing rights to access the Company's servers beyond the access right period included in a magicJack device or magicJack service. The extended access right ranges from one to five years. These fees charged to customers are initially deferred and recognized as revenue ratably over the extended access right period. Revenues from access rights granted to users of the magicApp, magicJack Connect App and magicJack for Business are recognized ratably over the access right period.

Revenues from the sale of other magicJack related products are revenues recognized from the sale of other items related to the magicJack devices and access right renewals the Company offers its customers, including porting fees charged to customers to port their existing phone number to a magicJack device or services, fees charged for customer to select a custom, vanity or Canadian phone number and fees charged to customers to change their existing number. These revenues are recognized at the time of sale.

Prepaid minutes revenues are primarily from the usage and expiration of international prepaid minutes, net of chargebacks. Revenues from prepaid minutes are recognized as minutes are used.

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Revenues from access and wholesale charges are generated from access fees charged to other telecommunication carriers or providers for Interexchange Carriers (“IXC”) calls terminated to the Company’s end-users, and other fees charged to telecommunication carriers or providers for origination of calls to their 800-numbers. These revenues are recorded based on rates set forth in the respective state and federal tariffs or negotiated contract rates, less provisions for billing adjustments. Revenues from access and wholesale charges are recognized as calls are terminated to the network.

UCaaS revenues are recurring monthly service revenue from sales of its hosted services. Customers are billed monthly in advance for these recurring services and in arrears for one time service charges and other certain usage charges. UCaaS revenues also includes non-recurring revenue from the sale of hardware and network equipment. Revenues for recurring monthly service are recorded in the period the services are provided over the term of the respective customer agreements and revenue from the sale of hardware and network equipment is recognized in the period that the equipment is delivered.

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 relates 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 and magicJack segment include cost of telecommunications and data center costs, personnel and overhead-related costs associated with operating the Company’s networks, servers and data centers, sales commissions associated with multi-year service plans, depreciation of network computers and equipment, amortization expense, 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 13.5% of total revenues during the year ended December 31, 2016. Revenues in the Capital Markets, Valuation and Appraisal and Principal Investments – United Online and magicJack segments are currently primarily generated in the United States. Revenues in the Auction and Liquidation 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 Expense***

The Company expenses advertising costs, which consist primarily of costs for printed materials, as incurred. Advertising costs totaled \$2,727, \$1,312 and \$1,456 for the years ended December 31, 2018, 2017 and 2016, respectively. Advertising expense is included as a component of selling, general and administrative expenses in the accompanying consolidated statements of income.

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

The Company's share-based payment awards principally consist of grants of restricted stock, restricted stock units and costs associated with the Company's employee stock purchase plan. In accordance with the applicable accounting guidance, share-based payment awards are classified as either equity or liabilities. For equity-classified awards, the Company measures compensation cost for the grant of membership interests at fair value on the date of grant and recognizes compensation expense in the consolidated statements of income 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.

In June 2018, the Company adopted the 2018 Employee Stock Purchase Plan ("Purchase Plan") which allows eligible employees to purchase common stock through payroll deductions as a price that is 15% of the market value of the common stock on the last day of the offering period. In accordance with the provisions of ASC 718, *Compensation – Stock Compensation* ("ASC 718"), the Company is required to recognize compensation expense relating to shares offered under the Purchase Plan. For the year ended December 31, 2018, the Company recognized compensation expense of \$132 related to the Purchase Plan. At December 31, 2018, there were 687,427 shares reserved for issuance under the Purchase Plan.

***(i) Income Taxes***

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of

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

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.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act revised the U.S. corporate income tax by, among other things, lowering the federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, providing an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creating new taxes on certain foreign sourced earnings. We recorded a provisional tax expense of \$13,052, which is included as a component of income tax expense and recorded in the fourth quarter of 2017 comprising of (a) \$12,954 related to the revaluation of net deferred tax assets to reflect the reduction in the corporate income tax, and (b) \$98 related to the transition tax on non-U.S. activities resulting from the Tax Act. During the fourth quarter of 2018, the Company completed its accounting for the provisional amounts recognized at December 31, 2017 and the impact was not significant. In addition, the Tax Act's international provisions regarding Global Intangible Low-Tax Income ("GILTI", Foreign Derived Intangible Income ("FDII") and Base Erosion Anti-Avoidance Tax ("BEAT") did not to have a material impact on the Company's financial statements for the year ended December 31, 2018. See Note 15 to the accompanying financial statements for additional information.

#### ***(j) Cash and Cash Equivalents***

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

***(k) Restricted Cash***

As of December 31, 2018, restricted cash balance of \$838 included \$469 cash collateral for one of the Company's telecommunication suppliers and \$369 certificate of deposits collateral for certain letter of credits. As of December 31, 2017, restricted cash balance of \$19,711 included \$19,197 of cash collateral related to a retail liquidation engagement and \$514 cash segregated in a special bank account for the benefit of customers related to the Company's broker dealer subsidiary and collateral for one of the Company's telecommunication suppliers.

***(l) 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 ASC "Topic 210: Balance Sheet," which requires 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 consolidated balance sheets.

***(m) 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.

***(n) Accounts Receivable***



Accounts receivable represents amounts due from the Company's Auction and Liquidation, Valuation and Appraisal, Capital Markets and Principal Investments - United Online and magicJack customers. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers' financial condition and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company's bad debt expense totaled \$1,308, \$1,066 and \$710 for the years ended December 31, 2018, 2017 and 2016, respectively. These amounts are included as a component of selling, general and administrative expenses in the accompanying consolidated statements of income.

***(o) Property and Equipment***

Property and equipment are stated at cost. Depreciation and amortization are 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.

***(p) Securities Owned and Securities Sold Not Yet Purchased***

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

As of December 31, 2018 and 2017, the Company's securities owned and securities sold not yet purchased at fair value consisted of the following:

	December 31, 2018	December 31, 2017
Securities and other investments owned:		
Common and preferred stocks and warrants	\$ 193,459	\$ 67,306
Corporate bonds	18,825	6,539
Fixed income securities	3,825	2,329
Loans receivable at fair value	33,731	33,713
Partnership interests and other	23,737	35,473
	\$ 273,577	\$ 145,360
Securities sold not yet purchased:		
Common stocks	\$ 11,130	\$ 19,145
Corporate bonds	16,338	1,175
Fixed income securities	10,155	699
Partnership interests and other	—	7,272
	\$ 37,623	\$ 28,291

***(g) Goodwill and Other Intangible Assets***

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

Goodwill includes the excess of the purchase price over the fair value of net assets acquired in a business combination. ASC 805 requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates four reporting units, which are the same as its reporting segments described in Note 22. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this

qualitative assessment for some or all of the Company's reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. Based on the Company's qualitative assessments during 2018, the Company concluded that a positive assertion can be made from the qualitative assessment that it is more likely than not that the fair value of the reporting units exceeded their carrying values and no impairments were identified.

The Company reviews the carrying value of its amortizable intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. During the year ended December 31, 2018, the Company recognized impairment of intangibles in the amount of \$1,070 related to the tradename of Wunderlich Securities, Inc. In June 2018, the Company changed the name Wunderlich Securities, Inc. to B. Riley Wealth Management, Inc. This impairment charge is included in restructuring charge in the Company's consolidated statements of income.

***(r) 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 and preferred stocks and warrants, corporate bonds, loans receivable valued at fair value and investments in partnerships. Investments in common stocks that are based on quoted prices in active markets are included in Level 1 of the fair value hierarchy. The Company also holds nonpublic common and preferred 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. We also invest in priority investment funds and the underlying securities held by these funds are primarily corporate and asset-backed fixed income securities and restrictions exist on the redemption of amounts invested by the Company. The Company's partnership and investment fund interests are valued based on the Company's proportionate share of the net assets of the partnerships and funds; the value for these investments are derived from the most recent statements received from the general partner or fund administrator. These partnership and investment fund interests are valued at net asset value ("NAV") in accordance with ASC "*Topic 820: Fair Value Measurements.*"

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.

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The following tables present information on the financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2018 and 2017.

	Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2018 Using			
	Fair value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Securities and other investments owned:				
Common and preferred stocks and warrants	\$ 193,459	\$ 168,882	—	\$ 24,577
Corporate bonds	18,825	—	18,825	—
Fixed income securities	3,825	—	3,825	—
Loans receivable at fair value	33,731	—	—	33,731
Total	249,840	\$ 168,882	\$ 22,650	\$ 58,308
Investment funds valued at net asset value <sup>(1)</sup>	23,737			
Total assets measured at fair value	\$ 273,577			
<b>Liabilities:</b>				
Securities sold not yet purchased:				
Common stocks	\$ 11,130	\$ 11,130	\$ —	\$ —
Corporate bonds	16,338	—	16,338	—
Fixed income securities	10,155	—	10,155	—
Total securities sold not yet purchased	37,623	11,130	26,493	—
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	4,633	—	—	4,633
Total liabilities measured at fair value	\$ 42,256	\$ 11,130	\$ 26,493	\$ 4,633

## Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2017 Using

	Fair value at December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Securities and other investments owned:				
Common stocks and warrants	\$ 67,306	\$ 38,960	\$ —	\$ 28,346
Corporate bonds	6,539	—	6,539	—
Fixed income securities	2,329	—	2,329	—
Loans receivable at fair value	33,713	—	—	33,713
Partnership interests and other	31,883	686	5,093	26,104
Total	141,770	\$ 39,646	\$ 13,961	\$ 88,163
Investment funds valued at net asset value <sup>(1)</sup>	3,590			
Total assets measured at fair value	\$ 145,360			
<b>Liabilities:</b>				
Securities sold not yet purchased:				
Common stocks	\$ 19,145	\$ 19,145	\$ —	\$ —
Corporate bonds	1,175	—	1,175	—
Fixed income securities	699	—	699	—
Partnership interests and other	7,272	7,272	—	—
Total securities sold not yet purchased	28,291	26,417	1,874	—
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	4,478	—	—	4,478
Total liabilities measured at fair value	\$ 32,769	\$ 26,417	\$ 1,874	\$ 4,478

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy in accordance with ASC *“Topic 820 Fair Value Measurements.”* The fair value amounts presented in the tables above for investment funds valued at net asset value are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

As of December 31, 2018 and 2017, financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were \$58,308 and \$88,163, respectively, or 3.0% and 6.4%, respectively, of the Company’s total assets. In determining the fair value for these Level 3 financial assets, the Company analyzes various financial, performance and market factors to estimate the value, including where applicable, over-the-counter market trading activity.

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The following table summarizes the significant unobservable inputs in the fair value measurement of level 3 financial assets and liabilities by category of investment and valuation technique as of December 31, 2018:

	Fair value at December 31, 2018	Valuation Technique	Unobservable Input	Range	Weighted Average
<b>Assets:</b>					
Common and preferred stocks and warrants	\$ 24,577	Market approach	Over-the-counter trading activity	\$7.18-\$10.50/share	\$ 7.79
			Market price of related security	\$0.48/share	\$ 0.48
		Yield analysis	Market yield	13%	13 %
		Option pricing model	Annualized volatility	26% - 53%	26 %
		Discounted cash flow	Cost of capital	12%	12 %
		Market Comparable Companies	Revenue Multiple	1.0X	1.0 X
Loans receivable at fair value	33,731	Discounted cash flow	Market interest rate	11.0% - 14.8%	11.80 %
Total level 3 assets measured at fair value	\$ 58,308				
<b>Liabilities:</b>					
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 4,633	Market approach	Operating income multiple	6.0x	6.0 x

The changes in Level 3 fair value hierarchy during the year ended December 31, 2018 and 2017 is as follows:

Year Ended	Level 3	Level 3 Changes During the Year				Level 3
	Balance at Beginning of Year	Fair Value Adjustments	Relating to Undistributed Earnings	Purchases, Sales and Settlements	Transfer in and/or out of Level 3	Balance at End of Year
December 31, 2018						
Common and preferred stocks and warrants	\$ 28,346	\$(4,220)	\$ 578	\$ 20,843	\$(20,970)	\$ 24,577
Corporate bonds	—	—	—	—	—	—
Loans receivable at fair value	33,713	35	300	(317)	—	33,731

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Partnership interests and other	26,104	1,108	607	(26,087 )	(1,732 )	—
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	4,478	—	155	—	—	4,633
Contingent consideration	—	—	—	—	—	—
Year Ended						
December 31, 2017						
Common stocks and warrants	\$ 299	\$ 3,028	\$ 3,419	\$ 21,600	\$—	\$ 28,346
Corporate bonds	160	—	—	—	(160 )	—
Loans receivable at fair value	—	1,447	—	32,266	—	33,713
Partnership interests and other	13,426	3,465	—	9,213	—	26,104
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	3,214	9,000	(8,542 )	—	806	4,478
Contingent consideration	1,242	8	—	(1,250 )	—	—

The fair value adjustment for contingent consideration of \$8 represents imputed interest for the years ended December 31, 2017. The Company had a triggering event in 2017 for the mandatorily redeemable noncontrolling interests that resulted in a fair value adjustment of \$7,850 of the total fair value adjustment of \$9,000 for the year ended December 31, 2017. In connection with this event, the Company received proceeds of \$6,000 from key man life insurance. These amounts have been recorded in the consolidated statements of income in Selling, general and administrative expenses in the corporate segment. The amount reported in the table above also for the years ended December 31, 2018 and 2017 includes the amount of undistributed earnings attributable to the noncontrolling interests that is distributed on a quarterly basis.

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

The carrying amount of the senior notes payable approximates 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.

During the years ended December 31, 2018, 2017 and 2016, there were no assets or liabilities measured at fair value on a non-recurring basis.

*(s) Derivative and Foreign Currency Translation*

The Company periodically uses derivative instruments, which primarily consist of the purchase of forward exchange contracts, for certain Auction and Liquidation engagements with operations outside the United States. During the year ended December 31, 2018, the Company's use of derivatives consisted of the purchase of forward exchange contracts in the amount of \$42,108 Canadian dollars that were settled during the first and second quarter of 2018. During the year ended December 31, 2017, the Company's use of derivative consisted of the purchase of forward exchange contracts (a) in the amount of \$8,000 Australian dollars that was settled on March 31, 2017; (b) in the amount of \$27,100 Canadian dollars, of which \$20,703 remained open at December 31, 2017 and was settled in 2018, and (c) \$1,500 Euro's that was settled in March 2018.

The forward exchange contract was entered into to improve the predictability of cash flows related to a retail store liquidation engagement that was completed in December 2016. The net (loss) gain from forward exchange contracts was (\$91) and \$31 during the years ended December 31, 2018 and 2017, respectively. These amounts are reported as a component of Selling, general and administrative expenses in the consolidated statements of income.

The Company transacts business in various foreign currencies. In countries where the functional currency of the underlying operations has been determined to be the local country's currency, revenues and expenses of operations outside the United States are translated into United States dollars using average exchange rates while assets and liabilities of operations outside the United States are translated into United States dollars using year-end exchange rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Transaction gains (losses) were \$1,294, (\$786) and (\$848) during the years ended December 31, 2018, 2017 and 2016, respectively. These amounts are included in selling, general and administrative expenses in the Company's consolidated statements of income.

*(t) Common Stock Warrants*

The Company issued 821,816 warrants to purchase common stock of the Company in connection with the acquisition of Wunderlich on July 3, 2017. The common stock warrants entitle the holders of the warrants to acquire shares of the Company's common stock from the Company at a price of \$17.50 per share (the "Exercise Price"), subject to, among other matters, the proper completion of an exercise notice and payment. The Exercise Price and the number of shares

of Company common stock issuable upon exercise are subject to customary anti-dilution and adjustment provisions, which include stock splits, subdivisions or reclassifications of the Company's common stock. The common stock warrants expire on July 3, 2022.

**(u) Equity Investments**

*Bebe stores, inc.*

At December 31, 2017, the Company had a loan receivable from bebe stores, inc. ("bebe") with a fair value of \$16,867 included in securities and other investments owned. On January 12, 2018, the loan receivable in the amount of \$16,867 plus accrued interest of \$51 was converted into 2,819,528 shares of common stock of bebe, representing a conversion price at \$6.00 per share. On January 12, 2018, the Company also purchased 500,000 shares of bebe common stock at \$6.00 per share of which 250,000 shares were newly issued common stock by bebe and 250,000 shares were purchased from the majority shareholder of bebe. At December 31, 2018, the Company had an ownership of approximately 30.1% of bebe's outstanding common shares. The equity ownership in bebe is accounted for under the equity method of accounting. The carrying value for the bebe investment at December 31, 2018 was \$27,053 and is included in prepaid expenses and other assets in the consolidated balance sheets.

*National Holdings Corporation*

On November 14, 2018, the Company entered into an agreement to acquire shares of National Holdings Corporation ("National Holdings"), a Nasdaq-listed issuer, from Fortress Biotech, Inc. for an aggregate purchase price totaling approximately \$22.9 million. The transaction was completed in two tranches. In the first tranche, which was completed in the fourth quarter of 2018, the Company acquired shares representing 24% of the total outstanding shares of National Holdings. As of December 31, 2018, the Company purchased 3,010,054 shares of National Holdings' common stock, representing 24% of National Holdings' outstanding shares, at \$3.25 per share. The carrying value for the National Holdings investment at December 31, 2018 was \$9,902 and is included in prepaid expenses and other assets in the consolidated balance sheets.

The second tranche was contingent upon receipt of the approval of Financial Industry Regulatory Authority, Inc., which was obtained in the first quarter of 2019. As a result of the closing of the second tranche, the Company now holds 49% of the outstanding shares of National Holdings. The equity ownership in National Holdings is accounted for under the equity method of accounting.

For the year ended December 31, 2018, equity income from bebe and National Holdings was \$9,135 and is included in income from equity investments on the consolidated statements of income.

**(v) *Statements of Cash Flows – Supplemental Non-cash Disclosures***

During the year ended December 31, 2018, non-cash investing activities included the conversion of a loan receivable in the amount of \$16,867 and accrued interest receivable of \$51 into an equity investment that totaled \$16,918 as more fully discussed in Note 2(u) above.

**(w) *Variable Interest Entity***

In January 2018, the operations of GACP II, LP, a private debt investment limited partnership (the “Partnership”) commenced operations. The Company’s investment in the Partnership is a VIE since the unaffiliated limited partners do not have substantive kick-out or participating rights to remove the Company’s subsidiary that is the general partner managing the Partnership. The Company has determined that it is not the primary beneficiary due to the fact that its fee arrangements are considered at-market and thus not deemed to be variable interests, and it does not hold any other interests in the Partnership that are considered to be more than insignificant. The Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly by the Company or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Company is not the primary beneficiary, a quantitative analysis may also be performed.

The carrying value of the Company’s investments in the VIE that was not consolidated is shown below.

	December 31, 2018
Partnership investments	\$ 7,012
Due from related party	570
Maximum exposure to loss	\$ 7,582

**(x) *Recent Accounting Pronouncements***

In August 2018, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13: *Fair Value Measurement (Topic 820)* (“ASU 2018-13”). The amendments in this update change the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. The Company early adopted ASU 2018-13 in the third quarter of 2018 and the adoption did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05: *Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments in this update provide guidance on when to record and disclose provisional amounts for certain income tax effects of the Tax Reform Act. The amendments also require any provisional amounts or subsequent adjustments to be included in net income from continuing operations. This ASU also discusses required disclosures that an entity must make with regard to the Tax Reform Act. This ASU is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company has adopted this standard and will continue to evaluate indicators that may give rise to a change in the Company’s tax provision as a result of the Tax Reform Act. See Note 15 to the accompanying financial statements for additional information on the Tax Reform Act.

In February 2016, FASB issued ASU 2016-02: *Leases (Topic 842)* which requires a lessee to recognize a right-of-use (ROU) asset and lease liability on the balance sheet for all leases with a term longer than 12 months and provide enhanced disclosures. The Company will adopt the new standard effective January 1, 2019 using a modified retrospective method and will not restate comparative periods. The Company expects to elect the ‘package of practical expedients,’ which permits the Company not to reassess under the new standard the Company’s prior conclusions about lease identification, lease classification and initial direct costs. While the Company continues to assess all of the effects of adoption, the Company currently believes the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on the Company’s balance sheet for our real estate operating leases; and (2) providing significant new disclosures about the Company’s leasing activities. On adoption, the Company currently expects to recognize lease liabilities of approximately \$67,535 with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The Company is substantially complete with our implementation efforts.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that provides for the reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Reform Act. The accounting update is effective for the fiscal year beginning after December 15, 2018 and early adoption is permitted. The accounting update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. The Company is currently evaluating the impact of the accounting update, but the adoption is not expected to have a material impact on our consolidated financial statements.

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

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

On January 1, 2018, the Company adopted ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”) using the retrospective method which requires adjustment to prior periods in the statement of cash flows. ASU 2016-18 clarifies how restricted cash should be presented on the statement of cash flows and requires companies to include restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period totals on the statement of cash flows. Restricted cash previously classified under investing activities is now included in the reconciliation of beginning and ending cash on the statement of cash flows. The adoption of ASU 2016-18 did not have a material impact on the Company’s financial condition and results of operations.

On January 1, 2018, the Company adopted ASC 606 – *Revenue from Contracts with Customers* using the modified retrospective method and the impact was determined to be immaterial on the Company’s consolidated financial statements. The new revenue standard was applied prospectively in the Company’s consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods. See Note 13 to the financial statements for additional information on the adoption of this standard.

### **NOTE 3— ACQUISITIONS**

#### ***Acquisition of magicJack VocalTec Ltd***

On November 9, 2017, the Company entered into an Agreement and Plan of Merger (the “magicJack Merger Agreement”) with B. R. Acquisition Ltd., an Israeli corporation and wholly-owned subsidiary of the Company (“Merger Sub”), and magicJack VocalTec Ltd., an Israeli corporation (“magicJack”), pursuant to which Merger Sub would merge with and into magicJack, with magicJack continuing as the surviving corporation and as an indirect subsidiary of the Company. Pursuant to the magicJack Merger Agreement, customary closing conditions were satisfied, and the acquisition was completed on November 14, 2018. Subject to the terms and conditions of the Agreement and Plan of Merger, each outstanding share of magicJack converted into the right to receive \$8.71 in cash without interest, representing approximately \$143,115 in aggregate merger consideration.

The assets and liabilities of magicJack, both tangible and intangible, were recorded at their estimated fair values as of the November 14, 2018, acquisition date for magicJack. The application of the purchase method of accounting resulted in goodwill of \$106,133 which represents the benefits from synergies with the Company’s existing business and acquired workforce. Acquisition related costs, such as legal, accounting, valuation and other professional fees related to the acquisition of magicJack, were charged against earnings in the amount of \$1,383 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2018. The 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:

Consideration paid by B. Riley:	
Number of magicJack shares outstanding at November 14, 2018	16,248,299
Cash merger consideration per share	\$8.71
Total cash consideration for magicJack common shares	141,523
Cash consideration for magicJack stock options and accelerated vesting of restricted stock awards	1,592
Total consideration	\$143,115

Tangible assets acquired and assumed:

Cash and cash equivalents	\$53,875
Restricted cash	369
Accounts receivable	3,103
Inventory	2,033
Prepaid expenses and other assets	4,961
Property and equipment	2,922
Deferred taxes	16,769
Accounts payable	(2,313 )
Contract liabilities	(66,489 )
Accrued payroll and related expenses	(1,989 )
Accrued expenses and other liabilities	(20,409 )
Developed technology	6,400
Tradename	1,750
Customer list	34,000
Process-know-how	2,000
Goodwill	106,133
Total	\$143,115

The revenue and income of magicJack included in the Company's consolidated financial statements for the period from November 14, 2018 (the date of acquisition) through December 31, 2018 were \$9,218 and \$2,391, respectively. The income from magicJack of \$2,391 includes a restructuring charge in the amount of \$338 for severance paid.

***Acquisition of Wunderlich Investment Company, Inc.***

On May 17, 2017, the Company entered into a Merger Agreement (the "Wunderlich Merger Agreement") with Wunderlich Securities Inc., a Delaware Corporation. Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. In connection with the Wunderlich acquisition on July 3, 2017, the total consideration of \$65,118 paid to Wunderlich shareholders was comprised of (a) cash in the amount of \$29,737; (b) 1,974,812 newly issued shares of the Company's common stock at

closing which were valued at \$31,495 for accounting purposes determined based on the closing market price of the Company's shares of common stock on the acquisition date on July 3, 2017, less a 13.0% discount for lack of marketability as the shares issued are subject to certain escrow provisions and restrictions that limit their trade or transfer; and (c) 821,816 newly issued common stock warrants with an estimated fair value of \$3,886. The common stock and common stock warrants issued includes 387,365 common shares and 167,352 common stock warrants that are held in escrow and subject to forfeiture to indemnify the Company for certain representations and warranties in connection with the acquisition. The Company believes that the acquisition of Wunderlich will allow the Company to benefit from wealth management, investment banking, corporate finance, and sales and trading services provided by Wunderlich. The acquisition of Wunderlich is accounted for using the purchase method of accounting. The Company also entered into a registration rights agreement with certain shareholders of Wunderlich (the "Registration Rights Agreement") on July 3, 2017 for the shares issued in connection with the Wunderlich Merger Agreement. The Registration Rights Agreement provides the Wunderlich shareholders with the right to notice of and, subject to certain conditions, the right to register shares of the Company's common stock in certain future registered offerings of shares of the Company's common stock.

The assets and liabilities of Wunderlich, both tangible and intangible, were recorded at their estimated fair values as of the July 3, 2017, acquisition date for Wunderlich. The application of the purchase method of accounting resulted in goodwill of \$36,485 which represents the benefits from synergies with the Company's existing business and acquired workforce. The 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 purchase price allocation was as follows:

Consideration paid by B. Riley:

Cash paid	\$29,737
Fair value of 1,974,812 B. Riley common shares issued	31,495
Fair value of 821,816 B. Riley common stock warrants issued	3,886
Total consideration	\$65,118

Tangible assets acquired and assumed:

Cash and cash equivalents	\$4,259
Securities owned	1,413
Accounts receivable	3,193
Due from clearing broker	15,133
Prepaid expenses and other assets	10,103
Property and equipment	2,315
Deferred taxes	6,171
Accounts payable	(1,718 )
Accrued payroll and related expenses	(6,387 )
Accrued expenses and other liabilities	(10,223)
Securities sold, not yet purchased	(1,707 )
Notes payable	(10,579)
Customer relationships	15,320
Trademarks	1,340
Goodwill	36,485
Total	\$65,118

The revenue and loss of Wunderlich included in the Company's consolidated financial statements for the period from July 3, 2017 (the date of acquisition) through December 31, 2017 were \$41,491 and \$2,283, respectively. The loss from Wunderlich of \$2,283 includes a restructuring charge in the amount of \$1,471 related primarily to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

***Acquisition of FBR & Co.***

On February 17, 2017, the Company entered into an Agreement and Plan of Merger (the "FBR Merger Agreement") with FBR, pursuant to which FBR was to merge with and into the Company (or a subsidiary of the Company), with the Company (or its subsidiary) as the surviving corporation (the "Merger"). On May 1, 2017, the Company and FBR filed a registration statement for the planned Merger. The stockholders of the Company and FBR approved the acquisition on June 1, 2017, customary closing conditions were satisfied and the acquisition was completed on June 1,

2017. Subject to the terms and conditions of the FBR Merger Agreement, each outstanding share of FBR common stock (“FBR Common Stock”) was converted into the right to receive 0.671 of a share of the Company’s common stock as summarized below. The Company believes that the acquisition of FBR will allow the Company to benefit from investment banking, corporate finance, securities lending, research, and sales and trading services provided by FBR and planned synergies from the elimination of duplicate corporate overhead and management functions with the Company. The acquisition of FBR is accounted for using the purchase method of accounting.

The assets and liabilities of FBR, both tangible and intangible, were recorded at their estimated fair values as of the June 1, 2017 acquisition date for FBR. The application of the purchase method of accounting resulted in goodwill of \$11,336 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 FBR, were charged against earnings in the amount of \$1,485 and included in selling, general and administrative expenses in the consolidated statements of income for the year ended December 31, 2017. The purchase accounting for the acquisition has been accounted for as a stock purchase with all the recognized goodwill is expected to be non-deductible for tax purposes.

The purchase price allocation was as follows:

Consideration paid by B. Riley:	
Number of FBR Common Shares outstanding at June 1, 2017	7,099,511
Stock merger exchange ratio	0.671
Number of B. Riley common shares	4,763,772
Number of B. Riley common shares to be issued from acceleration of vesting for outstanding FBR stock options, restricted stock and RSU awards	67,861
Total number of B. Riley common shares to be issued	4,831,633
Closing market price of B. Riley common shares on December 31, 2016	\$14.70
Total value of B. Riley common shares	71,025
Fair value of RSU's attributable to service period prior to June 1, 2017 <sup>(a)</sup>	2,446
Total consideration	\$73,471

Outstanding FBR restricted stock awards at June 1, 2017, the date of the acquisition, were adjusted in accordance with the FBR Merger Agreement with the right to receive 0.671 shares of the Company's common stock for each outstanding FBR stock award unit. The fair value of the FBR restricted stock awards at June 1, 2017 was (a)determined based on the closing price of the Company's common stock of \$14.70 on June 1, 2017. The fair value of the FBR restricted stock awards were apportioned as purchase consideration based on service provided to FBR as of June 1, 2017 with the remaining fair value of the FBR restricted stock awards to be recognized prospectively over the restricted stock and FBR restricted stock awards remaining vesting period.

The assets acquired and assumed was as follows:

Tangible assets acquired and assumed:	
Cash and cash equivalents	\$15,738
Securities owned	11,188
Securities borrowed	861,197
Accounts receivable	4,341
Due from clearing broker	29,169
Prepaid expenses and other assets	5,486
Property and equipment	8,663
Deferred taxes	17,706
Accounts payable	(1,524 )
Accrued payroll and related expenses	(7,182 )
Accrued expenses and other liabilities	(22,411 )
Securities loaned	(867,626)
Customer relationships	5,600
Tradename and other intangibles	1,790
Goodwill	11,336
Total	\$73,471

The revenue and loss of FBR included in the Company's consolidated financial statements for the period from June 1, 2017 (the date of acquisition) through December 31, 2017 were \$85,111 and \$2,099, respectively. The loss from FBR of \$2,099 includes transaction costs of \$3,551 related to an employment agreement with the former Chief Executive Officer of FBR and restructuring charges in the amount of \$9,669 related primarily to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

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***Pro Forma Financial Information***

The unaudited financial information in the table below summarizes the combined results of operations of the Company, magicJack, Wunderlich and FBR, as though the acquisitions had occurred as of January 1, of the respective periods presented. 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 and transaction related costs. The pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

	Pro Forma (Unaudited)	
	Year Ended December 31,	
	2018	2017
Revenues	\$489,556	\$515,706
Net income (loss) attributable to B. Riley Financial, Inc.	\$20,822	\$(13,149 )
Basic earnings (loss) per share	\$0.80	\$(0.51 )
Diluted earnings (loss) per share	\$0.78	\$(0.51 )
Weighted average basic shares outstanding	25,937,305	25,954,498
Weighted average diluted shares outstanding	26,764,856	25,954,498

**NOTE 4— RESTRUCTURING CHARGE**

The Company recorded restructuring charges in the amount of \$8,506, \$12,374 and \$3,887 for the years ended December 31, 2018, 2017 and 2016, respectively.

The restructuring charge of \$8,506 during the year ended December 31, 2018 was primarily related to severance costs and lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment and the rebrand of B. Riley Wealth Management.

During the year ended December 31, 2017, the Company implemented costs savings measures taking into account the planned synergies as a result of the acquisitions of FBR and Wunderlich, as more fully described in Note 3, which included a reduction in force for some of the corporate executives of FBR and Wunderlich and a restructuring to integrate FBR and Wunderlich's operations with the Company's existing operations. These initiatives resulted in a

restructuring charge of \$11,651 during the year ended December 31, 2017. The restructuring charges during the year ended December 31, 2017 included \$2,400 related to severance and \$884 related to the accelerated vesting of restricted stock awards to former corporate executives of FBR and Wunderlich and \$3,241 of severance and \$1,710 related to accelerated vesting of stock awards to employees and \$3,416 of lease loss accruals and impairments for the planned consolidation of office space related to operations of FBR and Wunderlich. Of the \$11,651 of restructuring charges related to these initiatives, \$7,855 related to the Capital Markets segment and \$3,796 related to corporate overhead. The restructuring charge during the year ended December 31, 2017 also included employee termination costs of \$723 related to a reduction in personnel in the principal investments - United Online segment of the Company's operations.

The restructuring charge in the year ended December 31, 2016 of \$3,887 was primarily related to employee termination costs related to a reduction in personnel in the corporate offices of UOL after the Company's acquisition on July 1, 2016.

The following table summarizes the changes in accrued restructuring charge during years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of year	2,600	694	187
Restructuring charge	8,506	12,374	3,887
Cash paid	(4,667)	(5,957)	(3,380)
Non-cash items	(2,584)	(4,511)	—
Balance, end of year	\$3,855	\$2,600	\$694



The following tables summarize the restructuring activities by reportable segment during the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018			
	Capital Markets	Principal Investments - United Online and magicJack	Corporate	Total
Restructuring charge:				
Employee termination costs	\$ 4,179	\$ 338	\$ —	\$ 4,517
Impairment of intangible assets	1,070	—	—	1,070
Facility closure and consolidation charge (recovery)	3,129	—	(210 )	2,919
Total restructuring charge	\$ 8,378	\$ 338	\$ (210 )	\$ 8,506

	Year Ended December 31, 2017			
	Capital Markets	Principal Investments - United Online and magicJack	Corporate	Total
Restructuring charge:				
Employee termination costs	\$ 4,951	\$ 723	\$ 3,284	\$ 8,958
Facility closure and consolidation charge	2,904	—	512	3,416
Total restructuring charge	\$ 7,855	\$ 723	\$ 3,796	\$ 12,374

	Year Ended December 31, 2016			
	Capital Markets	Principal Investments - United Online and magicJack	Corporate	Total
Restructuring charge:				
Employee termination costs	\$ —	\$ 3,474	\$ —	\$ 3,474
Facility closure and consolidation charge	—	—	413	413
Total restructuring charge	\$ —	\$ 3,474	\$ 413	\$ 3,887

#### NOTE 5— SECURITIES LENDING

As a result of the acquisition of FBR, the Company has an active securities borrowed and loaned business in which it borrows securities from one party and lends them to another. 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.

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The following table presents the contractual gross and net securities borrowing and lending balances and the related offsetting amount as of December 31, 2018 and 2017:

	Gross amounts recognized	Gross amounts offset in the consolidated balance sheets <sup>(1)</sup>	Net amounts included in the consolidated balance sheets	Amounts not offset in the consolidated balance sheets but eligible for offsetting upon counterparty default <sup>(2)</sup>	Net amounts
As of December 31, 2018					
Securities borrowed	\$ 931,346	\$ —	\$ 931,346	\$ 931,346	\$ —
Securities loaned	\$ 930,522	\$ —	\$ 930,522	\$ 930,522	\$ —
As of December 31, 2017					
Securities borrowed	\$ 807,089	\$ —	\$ 807,089	\$ 807,089	\$ —
Securities loaned	\$ 803,371	\$ —	\$ 803,371	\$ 803,371	\$ —

<sup>(1)</sup> Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.

<sup>(2)</sup> Includes the amount of cash collateral held/posted.

## NOTE 6— ACCOUNTS RECEIVABLE

The components of accounts receivable net include the following:

	December 31, 2018	December 31, 2017
Accounts receivable	\$ 12,594	\$ 15,593
Investment banking fees, commissions and other receivables	26,581	4,199
Unbilled receivables	3,644	1,023
Total accounts receivable	42,819	20,815
Allowance for doubtful accounts	(696)	(800)
Accounts receivable, net	\$ 42,123	\$ 20,015

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

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of year	\$ 800	\$ 255	\$ 89
Add: Additions to reserve	1,308	1,066	710
Less: Write-offs	(1,066 )	(311 )	(194 )
Less: Recoveries	(346 )	(210 )	(350 )
Balance, end of year	\$ 696	\$ 800	\$ 255

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.

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**NOTE 7— PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following:

	Estimated Useful Lives	December 31,	
		2018	2017
Leasehold improvements	Shorter of the remaining lease term or estimated useful life	\$11,513	\$7,834
Machinery, equipment and computer software	1 to 9 years	18,652	9,474
Furniture and fixtures	3.5 to 5 years	5,143	2,688
Total		35,308	19,996
Less: Accumulated depreciation and amortization		(19,785)	(8,019)
		\$15,523	\$11,977

Depreciation expense was \$4,674, \$3,718 and \$1,052 during the years ended December 31, 2018, 2017 and 2016, respectively.

**NOTE 8— GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill was \$223,368 and \$98,771 at December 31, 2018 and 2017, respectively.

The changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 were as follows:

	Capital Markets Segment	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments- United Online and magicJack Segment	Total
Balance as of December 31, 2016	\$28,840	\$ 1,975	\$ 3,713	\$ 14,375	\$48,903
Goodwill acquired during the year:					

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Dialectic on April 13, 2017	2,542	—	—	—	2,542
FBR on June 1, 2017	11,336	—	—	—	11,336
Resolution of acquisition related legal matter on June 30, 2017	—	—	—	1,352	1,352
Wunderlich on July 3, 2017	34,638	—	—	—	34,638
Balance as of December 31, 2017	77,356	1,975	3,713	15,727	98,771
Goodwill acquired during the year:					
Wunderlich purchase price adjustment	1,847	—	—	—	1,847
GlassRatner on August 1, 2018	16,617	—	—	—	16,617
magicJack on November 14, 2018	—	—	—	106,133	106,133
Balance as of December 31, 2018	\$95,820	\$ 1,975	\$ 3,713	\$ 121,860	\$223,368

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Intangible assets consisted of the following:

	Useful Life	As of December 31, 2018			As of December 31, 2017		
		Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Customer relationships	4 to 16 Years	\$92,330	\$ 16,608	\$ 75,722	\$58,330	\$ 9,100	\$ 49,230
Domain names	7 Years	237	85	152	287	61	226
Advertising relationships	8 Years	100	31	69	100	19	81
Internally developed software and other intangibles	0.5 to 5 Years	11,773	2,436	9,337	3,373	1,445	1,928
Trademarks	7 to 10 Years	4,600	762	3,838	4,190	447	3,743
Total		109,040	19,922	89,118	66,280	11,072	55,208
Non-amortizable assets:							
Tradenames		2,240	—	2,240	1,740	—	1,740
Total intangible assets		\$111,280	\$ 19,922	\$ 91,358	\$68,020	\$ 11,072	\$ 56,948

Amortization expense was \$9,135, \$7,422 and \$3,254 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, estimated future amortization expense is \$13,432, \$13,050, \$12,668 and \$12,647 for the years ended December 31, 2019, 2020, 2021 and 2022, respectively. The estimated future amortization expense after December 31, 2022 is \$37,321.

#### NOTE 9— LEASING ARRANGEMENTS

The Company has several noncancellable operating leases that expire at various dates through 2031. Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2018 were:

Year Ending December 31:	Operating Leases
2019	\$ 12,607
2020	11,555
2021	10,017

2022	9,318
2023	8,740
Thereafter	32,926
Total minimum lease payments	\$ 85,163

Rent expense under all operating leases was \$11,752, \$7,599 and \$3,205 for the years ended December 31, 2018, 2017, and 2016, respectively. Rent expense is included in Selling, general and administrative expenses in the accompanying consolidated statements of income.

## NOTE 10— CREDIT FACILITIES

Credit facilities consist of the following arrangements:

(a) ***\$200,000 Asset Based Credit***

On April 21, 2017, the Company amended its credit agreement (as amended, the “Credit Agreement”) governing its asset based credit facility with Wells Fargo Bank, National Association (“Wells Fargo Bank”) to increase the maximum borrowing limit from \$100,000 to \$200,000. Such amendment, among other things, also extended the expiration date of the credit facility from July 15, 2018 to April 21, 2022. On April 19, 2018, the Company entered into an amended and restated consent to the Credit Agreement, pursuant to which Wells Fargo Bank increased the maximum borrowing limit solely for the purposes of the Bon-Ton Transaction from \$200,000 to \$300,000, and reverts back to \$200,000 upon repayment of the amounts borrowed in connection with the Bon-Ton Transaction. The amounts borrowed in connection with the Bon-Ton Transaction were fully repaid as of December 31, 2018 and the maximum borrowing limit under the Credit Agreement reverted back to \$200,000. The Credit Agreement continues to allow for borrowings under the separate credit agreement (a “UK Credit Agreement”) which was dated March 19, 2015 with an affiliate of Wells Fargo Bank which provides for the financing of transactions in the United Kingdom. Such 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 \$200,000 credit facility. The UK Credit Agreement is cross collateralized and integrated in certain respects with the Credit Agreement. Cash advances and the issuance of letters of credit under the credit facility are made at the lender’s discretion. The letters of credit issued under this facility are furnished by the lender to third parties for the principal purpose of securing minimum guarantees under liquidation services contracts more fully described in Note 2(c). All outstanding loans, letters of credit, and interest are due on the expiration date which is generally within 180 days of funding. The credit facility is secured by the proceeds received for services rendered in connection with liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract. The Company paid Wells Fargo Bank a closing fee in the amount of \$500 in connection with the April 2017 amendment to the Credit Agreement. 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 2.5% to 17.5% of the net profits, if any, earned on the liquidation engagements funded under the Credit Agreement as set forth therein. Interest expense totaled \$4,247, \$1,136 and \$1,113 for the years ended December 31, 2018, 2017 and 2016, respectively. There was no outstanding balance on this credit facility at December 31, 2018 and 2017.



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

#### **NOTE 11— TERM LOAN**

On December 19, 2018, BRPI Acquisition Co LLC ("BRPAC"), a Delaware corporation, UOL, and YMAX Corporation, a Delaware corporation (collectively, the "Borrowers"), indirect wholly owned subsidiaries of the Company, in the capacity of borrowers, entered into a credit agreement (the "BRPAC Credit Agreement") with the Banc of California, N.A. in the capacity as agent (the "Agent") and lender and with the other lenders party thereto (the "Closing Date Lenders"). Certain of the Borrowers' U.S. subsidiaries are guarantors of all obligations under the BRPAC Credit Agreement and are parties to the BRPAC Credit Agreement in such capacity (collectively, the "Secured Guarantors"; and together with the Borrowers, the "Credit Parties"). In addition, the Company and B. Riley Principal Investments, LLC, the parent corporation of BRPAC and a subsidiary of the Company, are guarantors of the obligations under the BRPAC Credit Agreement pursuant to standalone guaranty agreements pursuant to which the shares outstanding membership interests of BRPAC are pledged as collateral.

The obligations under the BRPAC Credit Agreement are secured by first-priority liens on, and first priority security interest in, substantially all of the assets of the Credit Parties, including a pledge of (a) 100% of the equity interests of the Credit Parties, (b) 65% of the equity interest in United Online Software Development (India) Private Limited, a private limited company organized under the laws of India; and (c) 65% of the equity interests in magicJack VocalTec LTD., a limited company organized under the laws of Israel. Such security interests are evidenced by pledge, security and other related agreements.

The BRPAC Credit Agreement contains certain covenants, including those limiting the Credit Parties', and their subsidiaries' ability to incur indebtedness, incur liens, sell or acquire assets or businesses, change the nature of their businesses, engage in transactions with related parties, make certain investments or pay dividends. In addition, the BRPAC Credit Agreement requires the Credit Parties to maintain certain financial ratios. The BRPAC Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default, including payment defaults, breach of representations and warranties, covenant defaults and cross defaults. If an event of default occurs, the agent would be entitled to take various actions, including the acceleration of amounts due under the outstanding BRPAC Credit Agreement.

Under the BRPAC Credit Agreement, we borrowed \$80,000 due December 19, 2023. Pursuant to the terms of the BRPAC Credit Agreement, we may request additional optional term loans in an aggregate principal amount of up to \$10,000 at any time prior to the first anniversary of the agreement date (the “Option Loan”) with a final maturity date of December 19, 2023. On February 1, 2019, the Credit Parties, the Closing Date Lenders, the Agent and City National Bank, as a new lender (the “New Lender”), entered into the First Amendment to the Credit Agreement and Joinder (the “First Amendment”) pursuant to which, among other things, (i) New Lender became a party to the BRPAC Credit Agreement, (ii) the New Lender extended to Borrowers the Option Loan in the amount of \$10,000, (iii) the aggregate outstanding principal amount of the term loans was increased from \$80,000 to \$90,000; and (iv) the amortization schedule under the BRPAC was amended as set forth in the First Amendment. Additionally, in connection with the Option Loan, the Borrowers executed a term note in favor of New Lender dated February 1, 2019 in the amount of \$10,000. Borrowings under the BRPAC Credit Agreement bear interest at a rate equal to (a) the LIBOR rate for Eurodollar loans, plus (b) the applicable margin rate, which ranges from two and one-half percent (2.5%) to three percent (3.0%) per annum, based upon the Borrowers’ ratio of consolidated funded indebtedness to adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) for the preceding four fiscal quarters or other applicable period. At December 31, 2018 interest rate on the BRPAC Credit Agreement was at 5.51%. Interest payments are to be made each one, three or six months. Amounts outstanding under the BRPAC Credit Agreement are due in quarterly installments commencing on March 31, 2019 with any remaining amounts outstanding due at maturity. For the \$80,000 loan, quarterly installments from March 31, 2019 to December 31, 2022 are in the amount of \$4,444 per quarter and from March 31, 2023 to September 30, 2023 are \$2,222 per quarter. For the \$10,000 loan, quarterly installments from June 30, 2019 to December 31, 2022 are \$593 per quarter and from March 31, 2023 to September 30, 2023 are \$278 per quarter. As of December 31, 2018, the outstanding balance of the term loan was \$79,166 (net of unamortized debt issuance costs of \$834). Interest expense on the term loan during the year ended December 31, 2018 was \$170 (including amortization of deferred debt issuance costs of \$12).

We are in compliance with all covenants in the BRPAC Credit Agreement at December 31, 2018.

On April 13, 2017, UOL, in the capacity as borrower, entered into a credit agreement (the “UOL Credit Agreement”) with Banc of California, N.A. in the capacity as agent and lender. The UOL Credit Agreement provided for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20,000 which amount was reduced by \$1,500 commencing on June 30, 2017 and on the last day of each calendar quarter thereafter. The BRPAC Credit Agreement replaced the UOL Credit Agreement and the UOL Credit Agreement was terminated with a zero (\$0) balance at December 12, 2018. There was no outstanding balance at termination. There was no outstanding balance under the UOL Credit Agreement at December 31, 2017. Interest expense totaled \$456 (including amortization of remaining deferred loan fees at termination of \$313) and \$292 (including amortization of deferred loan fees of \$97) for the years ended December 31, 2018 and 2017, respectively.

## NOTE 12— NOTES PAYABLE

### Senior Notes Payable

Senior notes payable, net is comprised of the following as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
7.50% Senior notes due October 31, 2021	\$ 46,407	\$ 35,231
7.50% Senior notes due May 31, 2027	108,792	92,490
7.25% Senior notes due December 31, 2027	100,441	80,500
7.375% Senior notes due May 31, 2023	111,528	—
6.875% Senior notes due September 30, 2023	100,050	—
	467,218	208,221
Less: Unamortized debt issuance costs	(7,464 )	(4,600 )
	\$ 459,754	\$ 203,621

(a) ***\$46,407 Senior Notes Payable due October 31, 2021***

At December 31, 2018, the Company had \$46,407 senior notes due in 2021 (“7.50% 2021 Notes”), interest payable quarterly at 7.50%. On November 2, 2016, the Company issued \$28,750 of the 2021 Notes and during the second half of 2017, the Company issued an additional \$6,481 of the 7.50% 2021 Notes pursuant to an At the Market Issuance Sales Agreement as further discussed below. During the year ended December 31, 2018, the Company issued an

additional \$11,176 of the 7.50% 2021 Notes. The 7.50% 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 7.50% 2021 Notes, the Company received net proceeds of \$45,493 (after premium, underwriting commissions, fees and other issuance costs of \$914). The outstanding balance of the 2021 Notes was \$45,914 (net of unamortized debt issue costs and premiums of \$493) and \$34,483 (net of unamortized debt issue costs and premiums of \$748) at December 31, 2018 and 2017, respectively. Interest expense on the 7.50% 2021 Notes totaled \$3,293, \$2,537 and \$360 for the years ended December 31, 2018, 2017 and 2016 respectively.

***(b) \$108,792 Senior Notes Payable due May 31, 2027***

At December 31, 2018, the Company had \$108,792 senior notes due in 2027 (“7.50% 2027 Notes”), interest payable quarterly at 7.50%. On May 31, 2017, the Company issued \$60,375 of the 7.5% 2027 Notes and during the second half of 2017, the Company issued an additional \$32,115 of the 7.50% 2027 Notes pursuant to an At the Market Issuance Sales Agreement. During the year ended December 31, 2018, the Company issued an additional \$16,302 of the 7.50% 2027 Notes. The 2027 Notes are unsecured and due and payable in full on May 31, 2027. In connection with the issuance of the 7.50% 2027 Notes, the Company received net proceeds of \$106,971 (after premium, underwriting commissions, fees and other issuance costs of \$1,821). The outstanding balance of the 7.50% 2027 Notes was \$107,256 (net of unamortized debt issue costs and premium of \$1,536) and \$90,904 (net of unamortized debt issuance costs and premium of \$1,586) as of December 31, 2018 and 2017, respectively. Interest expense on the 2027 Notes totaled \$7,747 and \$3,551 for the years ended December 31, 2018 and 2017, respectively.

***(c) \$100,441 Senior Notes Payable due December 31, 2027***

At December 31, 2018, the Company had \$100,441 senior notes due in December 2027 (“7.25% 2027 Notes”), interest payable quarterly at 7.25%. In December 2017, the Company issued \$80,500 of the 7.25% 2027 Notes and during the year ended December 31, 2018, the Company issued an additional \$19,941 of the 7.25% 2027 Notes pursuant to an At the Market Issuance Sales Agreement. The 7.25% 2027 Notes are unsecured and due and payable in full on December 31, 2027. In connection with the issuance of the 7.25% 2027 Notes, the Company received net proceeds of \$97,811 (after underwriting commissions, fees and other issuance costs of \$2,630). The outstanding balance of the 7.25% 2027 Notes was \$98,073 (net of unamortized debt issue costs and premium of \$2,368) and \$78,234 (net of unamortized debt issue costs of \$2,266) at December 31, 2018 and 2017, respectively. Interest expense on the 7.25% 2027 Notes totaled \$7,041 and \$303 for the years ended December 31, 2018 and 2017, respectively.

***(d) \$111,528 Senior Notes Payable due May 31, 2023***

At December 31, 2018, the Company had \$111,528 senior notes due in May 2023 (“7.375% 2023 Notes”), interest payable quarterly at 7.375%. In May 2018, the Company issued \$100,050 of the 7.375% 2023 Notes and during the year ended December 31, 2018, the Company issued an additional \$11,478 of the 7.375% 2023 Notes pursuant to an At the Market Issuance Sales Agreement. The 7.375% 2023 Notes are unsecured and due and payable in full on May 31, 2023. In connection with the issuance of the 7.375% 2023 Notes, the Company received net proceeds of \$109,630 (after premium, underwriting commissions, fees and other issuance costs of \$1,898). The outstanding balance of the 7.375% 2023 Notes was \$109,872 (net of unamortized debt issue costs and premium of \$1,656) at December 31, 2018. Interest expense on the 7.375% 2023 Notes totaled \$5,156 for the year ended December 31, 2018.

***(e) \$100,050 Senior Notes Payable due September 31, 2023***

At December 31, 2018, the Company had \$100,050 senior notes due in September 2023 (“6.875% 2023 Notes”), interest payable quarterly at 6.875%. The 6.875% 2023 Notes were issued in September 2018. The 6.875% 2023 Notes are unsecured and due and payable in full on September 30, 2023. In connection with the issuance of the 6.875% 2023 Notes, the Company received net proceeds of \$98,549 (after underwriting commissions, fees and other issuance costs of \$1,501). The outstanding balance of the 6.875% 2023 Notes was \$98,639 (net of unamortized debt issue costs of \$1,411) at December 31, 2018. Interest expense on the 6.875% 2023 Notes totaled \$2,191 for the year ended December 31, 2018.

***(f) At Market Issuance Sales Agreement to Issue Up to Aggregate of \$75,000 of 6.875% 2023 Notes, 7.375% 2023 Notes, 7.25% 2027 Notes, 7.50% 2027 Notes or 7.50% 2021 Notes***

During 2017 and 2018, the Company entered into a series of related At the Market Issuance Sales Agreements (the “Sales Agreements”) with B. Riley FBR, Inc. governing an ongoing program of at-the-market sales of the Company’s senior notes. The Company filed prospectus supplements under which the Company sold the senior notes on June 28, 2017, December 19, 2017, April 25, 2018, June 5, 2018 and December 18, 2018. Each of these prospectus supplements was filed pursuant to an effective Registration Statement on Form S-3. The Company’s most recent Sales Agreement was entered into on December 18, 2018 (the “December 2018 Program”), and, under the related prospectus supplement, the Company may offer and sell up to \$75,000 of the senior notes. As of December 31, 2018, the Company had \$75,000 remaining availability under the December 2018 Program.

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## Other Notes Payable

### *Australian Dollar \$80,000 Note Payable*

In August 2016, the Company formed GA Retail Investments, L.P., a Delaware limited partnership, (the “Partnership”) which required the Company to contribute \$15,350. The Partnership borrowed \$80,000 Australian dollars from a third party investor in connection with its formation and the \$80,000 Australian dollars was exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement the Company entered into to liquidate the Masters Home Improvement stores. The \$80,000 Australian dollar participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and was subject to repayment upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. Although the terms of the participating note payable included the issuance of a 50% equity interest in the Partnership, sharing in all profits and losses of the Partnership, and no repayment until certain events occur, in accordance with ASC 480 Distinguishing Liabilities From Equity, this financial instrument was classified as a participating note payable. The \$80,000 Australian dollar participating note payable was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At December 31, 2018 and 2017, amounts payable in accordance with the participating note payable share of profits were \$1,428 and \$1,323, respectively, and they are included in net income attributable to noncontrolling interests and amounts Due to partners in the consolidated financial statements.

### *Notes Payable*

Notes payable include notes payable to a clearing organization for one of the Company’s broker dealers. The notes payable accrue interest at rates ranging from the prime rate plus 0.25% to 2.0% (5.25% to 6.50% at December 30, 2018) payable annually. The principal payments on the notes payable are due annually in the amount of \$357 on January 31, \$214 on September 30, and \$121 on October 31. The notes payable mature at various dates from September 30, 2018 through January 31, 2022. At December 31, 2018 and 2017, the outstanding balance for the notes payable was \$1,550 and \$2,243, respectively. Interest expense was \$111 and \$71 for the year ended December 31, 2018 and for period from July 3, 2017 (the date of Wunderlich acquisition) through December 31, 2017, respectively.

On April 19, 2018, the Company borrowed \$51,020 from GACP II, L.P., a direct lending fund managed by Great American Capital Partners, LLC, a wholly owned subsidiary of the Company. In accordance with the note payable, the Company was advanced \$50,000 and the note payable included an origination fee of \$1,020 that increased the face value of the note payable to \$51,020. Interest accrued at the three-month LIBOR rate plus 9%. The note payable was due in September 2018 and was fully repaid in August 2018. The note was collateralized by the proceeds generated from the joint venture liquidation of inventory and real estate related to a retail liquidation agreement. Interest expense



was \$2,721 (including amortization of deferred loan fees of \$1,110) for the year ended December 31, 2018.

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**NOTE 13— REVENUE FROM CONTRACTS WITH CUSTOMERS**

Revenue from contracts with customers by reportable segment for the year ended December 31, 2018 is as follows:

	Year Ended December 31, 2018				Total
	Reportable Segment				
	Capital Markets	Auction and Liquidation	Valuation and Appraisal	Principal Investments - United Online and magicJack	
Corporate finance, consulting and investment banking fees	\$ 117,978	\$ —	\$ —	\$ —	\$ 117,978
Wealth and asset management fees	74,510	—	—	—	74,510
Commissions, fees and reimbursed expenses	44,235	36,250	38,705	—	119,190
Subscription services	—	—	—	42,887	42,887
Service contract revenues	—	18,736	—	—	18,736
Advertising and other	—	—	—	11,347	11,347
Total revenues from contracts with customers	236,723	54,986	38,705	54,234	384,648
Interest income - Securities lending	31,798	—	—	—	31,798
Trading loss on investments	(16,129 )	—	—	—	(16,129 )
Other	22,674	—	—	—	22,674
Total revenues	\$ 275,066	\$ 54,986	\$ 38,705	\$ 54,234	\$ 422,991

Revenues are recognized when control of the promised goods or performance obligations for services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that we determine the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those promised goods or services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of the Company's past experiences, the time

period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of our influence, such as market volatility or the judgment and actions of third parties. Revenues by geographic region by segment is included in Note 22 – Business Segments.

The following provides detailed information on the recognition of the Company's revenues from contracts with customers:

**Corporate finance and investment banking fees.** 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. Fees from underwriting activities are recognized as revenues when the performance obligation for the services related to the underwriting transaction is satisfied under the terms of the engagement and is not subject to any other contingencies. Fees are also earned from financial advisory and consulting services rendered in connection with client mergers, acquisitions, restructurings, recapitalizations and other strategic transactions. The performance obligation for financial advisory services is satisfied over time as work progresses on the engagement and services are delivered to the client. The performance obligation for financial advisory services may also include success and performance based fees which are recognized as revenue when the performance obligation is no longer constrained and it is not probable that the revenue recognized would be subject to significant reversal in a future period. Generally, it is probable that the revenue recognized is no longer subject to significant reversal upon the closing of the investment banking transaction.

**Wealth and asset management fees.** Fees from wealth and asset management services consist primarily of investment management fees that are recognized over the period the performance obligation for 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.

**Commissions, fees and reimbursed expenses.** Commissions and other fees from clients for trading activities are earned from equity securities transactions executed as agent or principal are recorded at a point in time on a trade date basis. Commission, fees and reimbursed expenses earned on the sale of goods at Auction and Liquidation sales are recognized when evidence of a contract or arrangement exists, the transaction price has been determined, and the performance obligation has been satisfied when control of the product and risks of ownership has been transferred to the buyer. Revenues from fees and reimbursed expenses for valuation services to clients are recognized when the performance obligation is completed and is generally at the point in time upon delivery of the report to the customer.

**Subscription services.** Subscription service revenues derived from fees charged to UOL pay accounts and are recognized in the period in which the transaction price has been determinable and the related performance obligations for 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. Subscription service revenues from magicJack include (a) revenues for initial access rights, which are recognized ratably over the service term, (b) revenues from access rights renewal, which are recognized ratably over the extended access right period; (c) revenues from access and wholesale charges, which are recognized as calls are terminated to the network; (d) revenues from UCaaS services, which are recognized in the period the services are provided over the term of the customer agreements; and (e) prepaid international long distance minutes, which are recognized as the minutes are used or expired.

**Service contract revenues.** Service contract revenues are primarily 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 over time when the performance obligation is satisfied. The Company generally uses the cost-to-cost measure of progress for its contracts because it best depicts the transfer of services to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill the contract include labor and other direct costs related to the contract. Due to the nature of the guarantees and performance obligations under these contracts, the estimation of revenue that is ultimately earned is complex and subject to many variables and requires significant judgment. It is common for these contracts to contain provisions that can either increase or decrease the transaction price upon completion of our performance obligations under the contract. Estimated amounts are included in the transaction price at the most likely amount it is probable that a significant reversal of revenue will not occur. The Company's estimates of variable consideration and determination of whether or not to include estimated amounts in the transaction price are based on an assessment of its anticipated performance under the contract taking into consideration all historical, current and forecasted information that is reasonably available to the Company.

**Advertising and other.** Advertising and other revenues consist primarily of amounts from UOL'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 and the portion of revenues from the sale of magicJack devices that is allocated to hardware, as well as revenues from magicJack ancillary products and mobile broadband service devices to customers. Advertising revenues are recognized 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 transaction price is 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. Revenues from the hardware portion of the sale of magicJack devices are recognized when control transfers to the customer. Revenues from the sale of other magicJack related products are recognized at the time of sale. Sale of product revenues also include the related shipping and handling and installment fees, if applicable.

### **Information on Remaining Performance Obligations and Revenue Recognized from Past Performance**

The Company does not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at December 31, 2018. Corporate finance and investment banking fees and retail liquidation engagement fees that are contingent upon completion of a specific milestone and fees associated with certain distribution services are also excluded as the fees are considered variable and not included in the transaction price at December 31, 2018.

### **Contract Balances**

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records a receivable when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Receivables related to revenues from contracts with customers totaled \$42,123 and \$20,015 at December 31, 2018 and December 31, 2017, respectively. The Company had no significant impairments related to these receivables during the year ended December 31, 2018. The Company's deferred revenue primarily relates to retainer and milestone fees received from corporate finance and investment banking advisory engagements, asset management agreements, Valuation and Appraisal engagements and subscription services where the performance obligation has not yet been satisfied. Deferred revenue at December 31, 2018 and December 31, 2017 was \$69,066 and \$3,141, respectively. During the year ended December 31, 2018, the Company recognized revenue of \$15,278 that was recorded as deferred revenue at the beginning of the period.

## **Contract Costs**

Contract costs include: (1) costs to fulfill contracts associated with corporate finance and investment banking engagements are capitalized where the revenue is recognized at a point in time and the costs are determined to be recoverable; (2) costs to fulfill Auction and Liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation where the revenue is recognized over time when the performance obligation is satisfied; and (3) commissions paid to obtain magicJack contracts which are recognized ratably over the contract term and third party support costs for magicJack and related equipment purchased by customers which are recognized ratably over the service period.

At December 31, 2018, capitalized costs to fulfill a contract were \$2,920, which is recorded in prepaid expenses and other assets in the consolidated balance sheets. For the years ended December 31, 2018, the Company recognized expenses and related capitalized costs to fulfill a contract of \$1,428. There were no significant impairment charges recognized in relation to these capitalized costs during the year ended December 31, 2018.

## **NOTE 14— COMMITMENTS AND CONTINGENCIES**

### ***(a) Letters of Credit***

At December 31, 2018, there were letters of credit outstanding in the amount of \$830 related to the Principal Investments — UOL and magicJack segment. At December 31, 2017, there were letters of credit in the amount of \$18,505 related to three retail liquidation engagements.

### ***(b) Legal Matters***

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. In particular, the Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from the Company's securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. The Company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding the Company's business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. In view of the number and diversity of claims against the Company's company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the

outcome of litigation and other claims, the Company cannot state with certainty what the eventual outcome of pending litigation or other claims will be. Notwithstanding this uncertainty, the Company does not believe that the results of these claims are likely to have a material effect on its financial position or results of operations.

On June 17, 2018, B. Riley Financial, Inc. (the “Company” or “B. Riley”) entered into certain agreements pursuant to which B. Riley agreed to provide certain debt and equity funding and other support in connection with the acquisition (the “Acquisition”) by Vintage Rodeo Parent, LLC (the “Vintage Parent”), of Rent-A-Center, Inc. (“Rent-A-Center”), contemplated by that certain merger agreement dated as of June 17, 2018, by and among Vintage Parent, Vintage Rodeo Acquisition, Inc. a wholly owned subsidiary of Vintage Parent (the “Merger Sub” or the “Borrower”), and Rent-A-Center (the “Merger Agreement”).

In connection therewith, B. Riley and Vintage RTO, L.P., an affiliate of Vintage Parent (“Vintage Merger Guarantor”), entered into a Limited Guarantee dated as of June 17, 2018 (the “Limited Guarantee”), in favor of Rent-A-Center, pursuant to which B. Riley and Vintage Merger Guarantor (together, the “Merger Guarantors”) agreed to guarantee, jointly and severally, to Rent-A-Center the payment, performance and discharge of all of the liabilities and obligations of Vintage Parent and Merger Sub under the Merger Agreement when required in accordance with the Merger Agreement (the “Guaranteed Obligations”), including without limitation, (i) termination fees in the amount of \$126,500 due to Rent-A-Center if the Merger Agreement is properly terminated (the “Termination Fee”); and (ii) reimbursement and indemnification obligations when required (collectively, the “Guarantee Obligations”), provided, that the liability under the Limited Guarantee shall not exceed \$128,500.

In connection with the execution of the Limited Guarantee, the Company entered into a Mutual Indemnity/Contribution Agreement, dated as of June 17, 2018 (the “Mutual Indemnity Agreement”), with the Vintage Merger Guarantor and Samjor Family, LP (collectively, the “Vintage Indemnity Parties”). Under the Mutual Indemnity Agreement, the Vintage Guarantors agreed, jointly and severally, to indemnify and hold harmless B. Riley and its affiliates from damages and liabilities arising out of the Guarantee Obligations, other than those caused B. Riley’s failure to fund under their debt or equity commitments.

On December 18, 2018, Rent-A-Center purported to terminate the Merger Agreement because the end date of the agreement was allegedly not extended prior to December 17, 2018 by Vintage Parent. Rent-A-Center delivered notice of such termination to Vintage Parent, and notified Vintage Parent of its obligation under the terms of the Merger Agreement to pay Rent-A-Center the Termination Fee within three business days.

On December 18, 2018, Vintage Capital Management, LLC, an affiliate of Vintage Parent (“Vintage Capital”), delivered a letter to Rent-A-Center stating that Rent-A-Center’s purported termination of the Merger Agreement is invalid, that it believes the Merger Agreement remains in effect. On December 21, 2018, Vintage Capital filed a complaint in the Court of Chancery of the State of Delaware (the “Court”) challenging Rent-A-Center’s purported termination of the Merger Agreement and demand for payment of the Termination Fee. The relief sought by Vintage Capital includes declaratory judgments that the Merger Agreement has not been terminated and remains in full force and effect, that Rent-A-Center has breached its obligations under the Merger Agreement and is not excused from failing to comply with its obligations thereunder and that the Termination Fee is an unenforceable penalty.

On December 28, 2018, Rent-A-Center provided each of B. Riley and the Vintage Merger Guarantors with a written request under the Limited Guarantee (a “Performance Demand”), to promptly, and in any event within ten (10) Business Days, pay to Rent-A-Center the Guaranteed Obligations (including the Termination Fee) in full.

On December 30, 2018, B. Riley filed a motion in the Court to intervene in the above referenced case filed by Vintage Capital pursuant to which B. Riley is seeking declaratory judgments, among other things, that the parties agreed to extend the End Date under the Merger Agreement and that Rent-A-Center is estopped from terminating the Merger Agreement, that Rent-A-Center has breached the Merger Agreement and its obligations of good faith and fair dealing in connection with consummating the Merger, and that the Termination Fee is an unenforceable penalty. B. Riley is also seeking an award of costs and reasonable attorneys’ fees and such other further relief as the Court finds equitable and appropriate.

At a hearing held on December 31, 2018, the Court stated that it would grant a temporary restraining order to preserve the status quo, which order would prohibit Rent-A-Center from engaging in certain transactions pending an expedited trial on the merits. On January 3, 2019, the Court granted B. Riley’s motion to intervene in the Vintage Capital case and on January 7, 2019, the Court granted a temporary restraining order restricting Rent-A-Center from engaging in certain transactions prior to the trial on the merits scheduled for February 11, 2019. On February 11th and 12th, a trial was held in Delaware, post-trial briefs were filed on February 22, 2109 and March 1, 2019. A post-trial hearing has been scheduled for March 11, 2019. The Company believes that it is reasonably possible that the Court will rule in favor of the Performance Demand. The amount of possible loss is not estimable; however, the range of loss could be from \$0 to \$128,500.



On August 11, 2017, a putative class action lawsuit titled *Freedman v. magicJack VocalTec Ltd. et al.*, Case 9-17-cv-80940, was filed against magicJack and its Board of Directors in the United States District Court for the Southern District of Florida. The complaint alleged claims against magicJack and the members of its Board of Directors as well as two former members for violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, arising from proxy statements issued in connection with magicJack's April 19, 2017 shareholders meeting and magicJack's July 31, 2017 shareholders meeting that allegedly misrepresented material facts concerning the "true value" of Broadsmart Global, Inc. and its future prospects in order that the individual defendants (the Board members) could entrench themselves on magicJack's Board and extract unwarranted compensation in connection with their attempt to sell the company. In January 2018, the plaintiff filed an Amended Complaint. On February 16, 2018, magicJack and all of the individual defendants filed a motion to dismiss the Amended Complaint. The plaintiff filed his opposition to the motion to dismiss on April 2, 2018, and defendants' reply was filed on April 19, 2018. The court issued an order dismissing the amended complaint without prejudice on August 9, 2018. The plaintiff filed an amended complaint, and on August 20, 2018, magicJack filed a motion to dismiss the second amended complaint. On November 21, 2018, the court issued an order granting the motion to dismiss with prejudice. The plaintiff has filed Notice of Appeal with the U.S. Court of Appeals for the 11th Circuit, and, on January 30, 2019, filed a brief with the appeals court. On February 7, 2019, the court dismissed the appeal because appellant failed to file an appendix within the time period specified by the rules. On February 19, the plaintiff filed a motion to reinstate the appeal, which was returned unfiled because the proposed appendix was not compliant. In the event the plaintiff successfully files a motion to reinstate the appeal, the Company intends to object to the request. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

In June 2018, Galilee Acquisition LLC f/k/a Sutton View Acquisition LLC ("GAL") filed a complaint, served the following month, (case No.:50-2018-CA-007976-XXXX-MB) in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against magicJack Vocaltec Ltd. alleging a claim for negligent misrepresentation. The complaint alleges that magicJack provided false, material information to the plaintiff concerning its business, including information related to the operations, revenue projections, profit projections and growth forecast of Broadsmart. It alleges that the plaintiff relied on the information provided in determining whether to pursue acquiring magicJack and to incur the cost of conducting due diligence. The suit seeks an unspecified amount of damages. magicJack disputes GAL's claims and intends to vigorously defend the action. magicJack filed a motion to dismiss on September 4, 2018, which remains pending. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

On January 5, 2017, complaints filed in November 2015 and May 2016 naming MLV & Co. ("MLV"), a broker-dealer subsidiary of FBR, as a defendant in putative class action lawsuits alleging claims under the Securities Act, in connection with the offerings of Miller Energy Resources, Inc. ("Miller") have been consolidated. The Master Consolidated Complaint, styled *Gaynor v. Miller et al.*, is pending in the United States District Court for the Eastern District of Tennessee, and, like its predecessor complaints, continues to allege claims under Sections 11 and 12 of the Securities Act against nine underwriters for alleged material misrepresentations and omissions in the registration statement and prospectuses issued in connection with six offerings (February 13, 2013; May 8, 2013; June 28, 2013; September 26, 2013; October 17, 2013 (as to MLV only) and August 21, 2014) with an alleged aggregate offering price of approximately \$151,000. The plaintiffs seek unspecified compensatory damages and reimbursement of certain costs and expenses. In August 2017, the Court granted Defendant's Motion to Dismiss on Section 12 claims and found that the plaintiffs had not sufficiently alleged a corrective disclosure prior to August 6, 2015, when an SEC civil action was announced. Defendants' answer was filed on September 25, 2017. Plaintiffs have filed motions for class certification and to remand the case to state court following a positive ruling in an unrelated case by the U.S. Supreme Court. Although MLV is contractually entitled to be indemnified by Miller in connection with this lawsuit, Miller filed for bankruptcy in October 2015 and this likely will decrease or eliminate the value of the indemnity that MLV

receives from Miller.

In February 2017, certain former employees filed an arbitration claim with FINRA against WSI alleging misrepresentations in the recruitment of claimants to join WSI. Claimants also allege that WSI failed to support their mortgage trading business resulting in the loss of opportunities during their employment with WSI. Claimants are seeking \$10,000 in damages. WSI has counterclaimed alleging that claimants misrepresented their process for doing business, particularly their capital needs, resulting in substantial losses to WSI. WSI believes the claims are meritless and intends to vigorously defend the action.

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In March 2017, United Online, Inc. received a letter from PeopleConnect, Inc. (formerly, Classmates, Inc.) (“Classmates”) regarding a notice of investigation received from the Consumer Protection Divisions of the District Attorneys’ offices of four California counties (“California DAs”). These entities suggest that Classmates may be in violation of California codes relating to unfair competition, false or deceptive advertising, and auto-renewal practices. Classmates asserts that these claims are indemnifiable claims under the purchase agreement between United Online, Inc. and the buyer of Classmates. A tolling agreement with certain California District Attorneys has been signed and informal discovery and production is in process. At the present time, management believes the financial impact to the Company, if any, is not expected to be material.

In July 2017, an arbitration claim was filed with FINRA by Dominick & Dickerman LLC and Michael Campbell against WSI and Gary Wunderlich with respect to the acquisition by Wunderlich Investment Company, Inc. (“WIC”) (the parent corporation of WSI) of certain assets of Dominick & Dominick LLC in 2015. The Claimants allege that respondents overvalued WIC so that the purchase price paid to the Claimants in shares of WIC stock was artificially inflated. The Statement of Claim includes claims for common law fraud, negligent misrepresentation, and breach of contract. Claimants are seeking damages of approximately \$8,000 plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

*(c) Tax Contingencies*

magicJack believes that it files all required tax returns and pays all required federal, state and municipal taxes (such as sales, excise, utility, and ad valorem taxes), fees and surcharges. magicJack is the subject of inquiries and examinations by various states and municipalities in the normal course of business. In accordance with generally accepted accounting principles, magicJack makes a provision for a liability for taxes when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. magicJack believes any possible claims are without merit and vigorously defends its rights. However, if a government entity were to prevail in any matter, it could have a material adverse effect on magicJack’s financial condition, results of operation and cash flows. In addition, it is at least reasonably possible that a potential loss may exist for tax contingencies in addition to the provisions taken by magicJack.

magicJack is currently under examination for potential state tax liabilities in some states and local jurisdictions. magicJack has offered to settle a state examination for payment of \$800 and the agreement to remit certain taxes on a prospective basis but magicJack has not reached an agreement with the state on this matter.

In a letter dated April 23, 2018, magicJack received notice that the Internal Revenue Service (the “IRS”) has selected magicJack’s 2015 United States income tax return for examination. magicJack had an initial meeting with the IRS in

June 2018 and has supplied responses for all of the IRS's document requests to date. magicJack believes that the positions taken in its 2015 return are reasonable and appropriate, however, magicJack cannot be sure of the ultimate outcome of the examination and cannot estimate the likelihood of liability or the amount of potential assessments, if any, that could arise from the examination.

Historically, magicJack considered the requirements to collect sales taxes under the auspices of a 1991 Supreme Court case, *Quill Corp. v. North Dakota*, which established the precedent that a physical presence in the respective state is required for an entity to be subject to a state's sales and use tax requirements. Accordingly, magicJack had concluded that it did not have nexus for sales tax in those states in which it had no physical presence (*i.e.*, it had no employees regularly and systematically there and it had no property there). On June 21, 2018, via *South Dakota v. Wayfair, Inc. (No. 17-494)* the U.S. Supreme Court reversed its prior ruling and eliminated the "physical presence" requirement. In consideration of the ruling, magicJack made the decision to start collecting sales tax on direct sales of its magicJack device and access right renewals in states that have adopted similar "Economic Nexus" laws. magicJack began registering for, collecting and remitting sales tax to identified jurisdictions during the third quarter of 2018. The Company will continue to monitor the situation and add additional states if deemed necessary. Though the South Dakota law is to be applied prospectively, it is not certain if other states may try to enact laws on a retrospective basis based on the *Wayfair* ruling, and the Company cannot estimate the likelihood of liability or the potential amount of assessments that could arise from prior periods if other states tried to apply the ruling on a retrospective basis.

Historically, magicJack has from time to time received Letters of Inquiry ("LOI") from the Enforcement Bureau of the Federal Communications Commission ("FCC") regarding the nature of its Core Consumer product offering. magicJack has promptly responded to all inquiries received. As it has previously disclosed, magicJack believes that under current regulations it is not an interconnected VoIP provider subject to FCC regulations. To date, it has not received any formal notice from the FCC of any enforcement action. The Company intends to vigorously defend itself if an enforcement action is initiated. The Company, however, cannot be sure of the ultimate outcome of any possible FCC action and cannot estimate the likelihood of liability or the amount of potential assessments, if any, that could arise.

## **NOTE 15— INCOME TAXES**

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, provides an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and creates new taxes on certain foreign sourced earnings. We recorded a provisional tax expense of \$13,052, which is included as a component of income tax expense and recorded in the fourth quarter of 2017 comprising of (a) \$12,954 related to the revaluation of net deferred tax assets to reflect the reduction in the corporate income tax, and (b) \$98 related to the transition tax on non-U.S. activities resulting from the Tax Act. During the fourth quarter of 2018, the Company completed its accounting for the provisional amounts recognized at December 31, 2017 and the impact was not significant. In addition, the Tax Act's international provisions regarding Global Intangible Low-Tax Income ("GILTI", Foreign Derived Intangible Income ("FDII") and Base Erosion Anti-Avoidance Tax ("BEAT")) did not to have a material impact on the Company's financial statements for the year ended December 31, 2018.

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The Company's provision for income taxes consists of the following for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$2,117	\$3,804	\$5,530
State	284	1,019	1,114
Foreign	(352 )	(975 )	4,063
Total current provision	2,049	3,848	10,707
Deferred:			
Federal	1,817	6,889	3,015
State	353	(1,937)	610
Foreign	684	(290 )	(11 )
Total deferred	2,854	4,662	3,614
Total provision for income taxes	\$4,903	\$8,510	\$14,321

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A reconciliation of the federal statutory rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 to the effective tax rate for income before income taxes is as follows:

	Year Ended December 31,		
	2018	2017	2016
Provision for income taxes at federal statutory rate	21.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	6.0	5.0	2.8
Transaction expenses	1.7	2.0	—
Noncontrolling interest tax differential	(1.2 )	(6.6 )	(6.2 )
Key man life insurance	—	(7.9 )	—
Employee stock based compensation	(9.9 )	(8.7 )	—
Internal Revenue Service Section 338(g) - Treatment of acquisition of UOL as a taxable business combination	—	(44.6 )	—
U.S. Tax Cuts and Jobs Act	—	63.8	—
Other	5.4	3.6	(1.2 )
Effective income tax rate	23.0 %	41.6 %	30.4 %

Deferred income tax assets (liabilities) consisted of the following as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Deferred tax assets:		
Deductible goodwill and other intangibles	\$690	\$4,019
Accrued liabilities and other	4,182	3,549
Deferred revenue	—	54
Mandatorily redeemable noncontrolling interests	1,120	1,109
Other	4,157	310
State taxes	123	—
Share based payments	2,148	2,117
Foreign tax and other tax credit carryforwards	1,848	290
Capital loss carryforward	61,127	2,582
Net operating loss carryforward	45,705	17,900
Total deferred tax assets	121,100	31,930
Deferred tax liabilities:		
State taxes	(75 )	(46 )
Depreciation	(421 )	(73 )
Deferred revenue	(702 )	—
Total deferred tax liabilities	(1,198 )	(119 )

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Net deferred tax assets	119,902	31,811
Valuation allowance	(77,503 )	(2,582 )
Net deferred tax assets	\$42,399	\$29,229

The Company's income before income taxes of \$21,303 for the year ended December 31, 2018 includes a United States component of income before income taxes of \$19,293 and a foreign component comprised of income before income taxes of \$2,010. As of December 31, 2018, the Company had federal net operating loss carryforwards of \$60,637, state net operating loss carryforwards of \$65,740. The Company's federal net operating loss carryforwards will expire in the tax years commencing in December 31, 2029 through December 31, 2034, the state net operating loss carryforwards will expire in tax years commencing in December 31, 2029 and the foreign tax credit carryforwards will expire in 2027.

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, capital loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. The Company's net operating losses are subject to annual limitations in accordance with Internal Revenue Code Section 382. Accordingly, the Company is limited to the amount of net operating loss that may be utilized in future taxable years depending on the Company's actual taxable income. As of December 31, 2018, the Company believes that certain net operating loss carryforwards will be utilized in future tax periods before the loss carryforwards expire and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided a valuation allowance. The Company does not believe that it is more likely than not that the Company will be able to utilize the benefits related to capital loss carryforwards and has provided a full valuation allowance in the amount of \$61,127 against these deferred tax assets.

At December 31, 2018, the Company had gross unrecognized tax benefits totaling \$11,138 all of which would have an impact on the Company's effective income tax rate, if recognized. A reconciliation of the amounts of gross unrecognized tax benefits (before federal impact of state items), excluding interest and penalties, was as follows (in thousands):

	Year Ended December 31, 2018
Beginning balance	\$ 1,140
Addition as a result of the acquisition of magicJack	10,121
Additions for current year tax positions	49
Reductions due to lapse in statutes of limitations	(172 )
Ending balance	\$ 11,138

The Company files income tax returns in the U.S., various state and local jurisdictions, and certain other foreign jurisdictions. The Company is currently under audit by certain state and local, and foreign tax authorities. The audits are in varying stages of completion. The Company evaluates its tax positions and establishes liabilities for uncertain tax positions that may be challenged by tax authorities. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, case law developments and closing of statutes of limitations. Such adjustments are reflected in the provision for income taxes, as appropriate. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar years ended December 31, 2015 to 2018.

At December 31, 2018, the Company believes it is reasonably possible that its gross liabilities for unrecognized tax benefits may decrease by approximately \$145 within the next 12 months due to audit settlements and expiration of statute of limitations.

The Company had accrued \$3,924, including \$3,392 addition for magicJack, for interest and penalties relating to uncertain tax positions at December 31, 2018 all of which was included in income taxes payable as a component of accrued expenses and other liabilities in the consolidated balance sheet. The Company recorded a benefit of \$211 for interest and penalty expenses related to uncertain tax positions, which was included in provision for income taxes, for the year ended December 31, 2018.

#### **NOTE 16— 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 387,365 common shares in 2018 and 453,365 common shares in 2017 that are held in escrow and subject to forfeiture. The common shares held in escrow includes 387,365 common shares that are subject to forfeiture to indemnify the Company for certain representations and warranties in connection with the acquisition of Wunderlich, and in 2017 excluded 66,000 common shares held in escrow issued to the former members of Great American Group, LLC that were subject to forfeiture upon the final settlement of claims for goods held for sale in connection with the transaction with Alternative Asset Management Acquisition Corp. in 2009. In August 2018, the shares held in escrow issued to the former members of Great American Group, LLC were released and 21,233 of the 66,000 shares held in escrow were cancelled to satisfy the resolution of escrow claims. The shares that remain in escrow are subject to forfeiture upon the final settlement of claims as more fully described in the related escrow instructions. 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 in accordance with the escrow instructions were satisfied at the end of the respective years. Securities that could potentially dilute basic net income per share in the future that were not included in the computation of diluted net income per share for the years ended December 31, 2018, 2017 and 2016 were 1,920,670, 709,358 and 384,825, respectively, because to do so would have been anti-dilutive.

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

	Year Ended December 31,		
	2018	2017	2016
Net income attributable to B. Riley Financial, Inc.	\$ 15,509	\$ 11,556	\$ 21,526
Weighted average shares outstanding:			
Basic	25,937,305	23,181,388	18,106,621
Effect of dilutive potential common shares:			
Restricted stock units and warrants	677,249	901,397	198,852
Contingently issuable shares	150,302	208,119	86,379
Diluted	26,764,856	24,290,904	18,391,852
Basic income per share	\$0.60	\$0.50	\$1.19
Diluted income per share	\$0.58	\$0.48	\$1.17

#### NOTE 17— LIMITED LIABILITY COMPANY SUBSIDIARIES

##### *(a) Operating Agreements of Limited Liability Company Subsidiaries*

The Company has certain subsidiaries that are organized as limited liability companies, each of which has its own separate operating agreement. Generally, each of these subsidiaries is managed by an individual manager who is a member or employee of the subsidiary, although the manager may not take certain actions unless the majority member of the subsidiary consents to the action. These actions include, among others, the dissolution of the subsidiary, the disposition of all or a substantial part of the subsidiary's assets not in the ordinary course of business, filing for bankruptcy, and the purchase by the subsidiary of one of the members' ownership interest upon the occurrence of certain events. Certain of the members with a minority ownership interest in the subsidiaries are entitled to receive guaranteed payments in the form of compensation or draws, in addition to distributions of available cash from time to time. Distributions of available cash are generally made to each of the members in accordance with their respective ownership interests in the subsidiary after repayment of any loans made by any members to such subsidiary, and allocations of profits and losses of the subsidiary are generally made to members in accordance with their respective ownership interests in the subsidiary. The operating agreements also generally place restrictions on the transfer of the members' ownership interests in the subsidiaries and provide the Company or the other members with certain rights of first refusal and drag along and tag along rights in the event of any proposed sales of the members' ownership interests.

Generally, a member of the subsidiary who materially breaches the operating agreement of the subsidiary, which breach has a direct, substantial and adverse effect on the subsidiary and the other members, or who is convicted of a felony (or a lesser crime of moral turpitude) involving his management of or involvement in the affairs of the

subsidiary, or a material act of dishonesty of the member involving his management of or involvement in the affairs of the subsidiary, shall forfeit his entire ownership interest in the subsidiary.

***(b) Repurchase Obligations of Membership Interests of Limited Liability Company Subsidiaries***

The operating agreements of the Company's limited liability company subsidiaries require the Company to repurchase the entire ownership interest of each the members upon the death of a member, disability of a member as defined in the operating agreement, or upon declaration by a court of law that a member is mentally unsound or incompetent. Upon the occurrence of one of these events, the Company is required to repurchase the member's ownership interest in an amount equal to the fair market value of the member's noncontrolling interest in the subsidiary.

The Company evaluated the classification of all of its limited liability company members' ownership interests in accordance with the accounting guidance for financial instruments with characteristics of liabilities and equity. This guidance generally provides for the classification of members' ownership interests that are subject to mandatory redemption obligations to be classified outside of equity. In accordance with this guidance, all members with a minority ownership interest in these subsidiaries are classified as liabilities and included in mandatorily redeemable noncontrolling interests in the accompanying consolidated balance sheets. Members of these subsidiaries with a minority ownership interest issued before November 5, 2003 are stated on a historical cost basis and members of the Company's subsidiaries with a minority ownership interests issued on or after November 5, 2003 are stated at fair value at each balance sheet date. The Company deems such repurchase obligations, which are payable to members who are also employees of these subsidiaries, to be a compensatory benefit. Accordingly, the changes in the historical cost basis and the changes in the fair value of the respective members' ownership interests (noncontrolling interests) are recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of income.

In accordance with the operating agreement of one of the Company's limited liability Company's, a repurchase event occurred in the second quarter of 2017 for one of the Members which resulted in the repurchase on the Members minority ownership interest. The triggering event resulted in a fair value adjustment and purchase of the Members minority interest in the amount of \$7,850. The Company also received proceeds of \$6,000 from key man life insurance in connection with this event.

During the year ended December 31, 2017, the change in fair value of the mandatorily redeemable noncontrolling interests was \$9,000, which was comprised of a fair value adjustment of \$1,150 and \$7,850 from the triggering event previously discussed above. The noncontrolling interests share of net income was \$1,222, \$1,799 and \$2,232 for the years ended December 31, 2018, 2017 and 2016, respectively.

#### **NOTE 18—SHARE BASED PAYMENTS**

##### ***(a) Amended and Restated 2009 Stock Incentive Plan***

The Company's Board of Director's amended the Amended and Restated 2009 Stock Incentive Plan (the "Plan"), effective October 7, 2014, which, among other things, increased the number of shares of stock shares of stock the Company reserved for issuance thereunder to 3,210,133 shares. As of December 31, 2018, the Company had 1,601,104 shares of common stock available for future grants under the Incentive Plan. During the years ended December 31, 2018, 2017 and 2016, the Company granted restricted stock units representing 424,235, 486,049 and 544,605 shares of common stock with a total fair value of \$8,855, \$7,732 and \$5,301 to certain employees and directors of the Company under the Company's Amended and Restated 2009 Stock Incentive Plan (the "Plan"). Share-based compensation expense for such restricted stock units was \$5,829, \$4,994 and \$2,768 for the years ended December 31, 2018, 2017 and 2016, 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 December 31, 2018, the expected remaining unrecognized share-based compensation expense of \$10,869 will be expensed over a weighted average period of 2.0 years.

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A summary of equity incentive award activity under the Plan for the years ended December 31, 2018 and 2017 was as follows:

	Shares	Weighted Average Fair Value
Nonvested at December 31, 2016	680,135	\$ 9.74
Granted	486,049	15.91
Vested	(344,196)	10.05
Forfeited	(29,724 )	10.49
Nonvested at December 31, 2017	792,264	\$ 13.30
Granted	424,235	20.87
Vested	(310,625)	13.17
Forfeited	(9,057 )	12.49
Nonvested at December 31, 2018	896,817	\$ 16.94

The per-share weighted average grant-date fair value of restricted stock units was \$20.87, \$15.91 and \$9.73 for the years ending December 31, 2018, 2017 and 2016, respectively. The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was \$4,091, \$3,459 and \$1,755, respectively.

*(b) Amended and Restated FBR & Co. 2006 Long-Term Stock Incentive Plan*

In connection with the acquisition of FBR on June 1, 2017, the equity awards previously granted or available for issuance under the FBR & Co. 2006 Long-Term Stock Incentive Plan (the “FBR Stock Plan”) may be issued under the Plan. As of December 31, 2018, the Company has 1,691,227 shares of common stock available for future grants under the FBR Stock Plan. During the year ended December 31, 2018, the Company granted restricted stock units representing 254,213 shares of common stock with a total grant date fair value of \$5,231 under the FBR Stock Plan. During the year ended December 31, 2017, the Company granted restricted stock units representing 871,317 shares of common stock with a total fair value of \$14,577 to certain employees under the FBR Stock Plan. Share-based compensation expense was \$7,081 and \$5,347 for the years ended December 31, 2018 and 2017, respectively. Included in the share based compensation expense is restructuring charge of \$1,455 and \$2,391 for the years ended December 31, 2018 and 2017, respectively. See Note 4 for discussion on these restructuring charges. As of December 31, 2018, the expected remaining unrecognized share-based compensation expense of \$7,813 will be expensed over a weighted average period of 2.0 years.

A summary of equity incentive award activity for the year ended December 31, 2018 and for period from June 1, 2017, the date of the acquisition of FBR, through December 31, 2017 was as follows:

	Shares	Weighted Average Fair Value
Nonvested at June 1, 2017, acquisition date of FBR resulting from the exchange of previously existing FBR awards	530,661	\$ 14.70
Granted	871,317	16.73
Vested	(200,905 )	15.08
Forfeited	(134,940 )	15.79
Nonvested at December 31, 2017	1,066,133	\$ 16.15
Granted	254,213	20.58
Vested	(527,730 )	16.28
Forfeited	(103,186 )	16.44
Nonvested at December 31, 2018	689,430	\$ 17.64

The per-share weighted average grant-date fair value of restricted stock units was \$20.58 and \$16.73 during the years ended December 31, 2018 and 2017, respectively. The total fair value of shares vested during the years ended December 31, 2018 and 2017 was \$8,590 and \$3,030, respectively.

The total income tax benefit recognized related to the vesting of restricted stock units from the Plan and FBR Stock Plan was \$4,505, \$2,625 and \$1,141 for the years ended December 31, 2018, 2017 and 2016 respectively.

**NOTE 19— BENEFIT PLANS AND CAPITAL TRANSACTIONS**

***(a) Employee Benefit Plan***

The Company maintains qualified defined contribution 401(k) plans, which cover substantially all of its U.S. employees. Under the plans, participants are entitled to make pre-tax contributions up to the annual maximums established by the Internal Revenue Service. The plan documents permit annual discretionary contributions from the Company. Employer contributions in the amount of \$1,248 and \$565 were made during the years ended December 31, 2018 and 2017, respectively.

***(b) 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 of \$240.

***(c) Dividends***

From time to time, the Company may decide to pay dividends which will be dependent upon the Company's financial condition and results of operations. On March 5, 2019 the Company declared a regular dividend of \$0.08 per share which will be paid by the Company on or about March 28, 2019 to stockholders of record as of March 19, 2019. On November 5, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on November 27, 2018 to stockholders of record as of November 16, 2018. On August 2, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.22 per share which was paid by the Company on August 29, 2018 to stockholders of record as of August 16, 2018. On May 7, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.04 per share which was paid by the Company on June 5, 2018 to stockholders of record as of May 21, 2018. On March 7, 2018, the Company declared a regular dividend of \$0.08 per share and a special dividend of \$0.08 per share which was paid by the Company on April 3, 2018. During the years ended December 31, 2018 and 2017, we paid cash dividends of \$22,684 and \$16,755 on our common stock, respectively. While it is the Board's current intention to make regular dividend payments of \$0.08 per share each quarter and special dividend payments dependent upon exceptional circumstances from time to time, the Company's Board of Directors may reduce or discontinue the payment of dividends at any time for any reason it deems relevant. The declaration and payment of any future dividends or repurchases of our common stock will be made at the discretion of the Company's Board of Directors and will be dependent upon the Company's financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by the Company's Board of Directors.

**NOTE 20— NET CAPITAL REQUIREMENTS**

B. Riley & Co., LLC ("BRC"), B. Riley FBR, MLV and B. Riley Wealth Management ("BRWM"), the Company's broker-dealer subsidiaries, are registered with the SEC as broker-dealers and are members of FINRA. The Company's broker-dealer subsidiaries are subject to SEC Uniform Net Capital Rule (Rule 15c3-1) which requires the subsidiaries to maintain minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As such, they are subject to the minimum net capital requirements promulgated by the SEC. As of December 31, 2018, BRC had net capital of \$350, which was \$100 in excess of its required net capital of \$250 (net capital ratio of 3.50 to 1); B. Riley FBR had net capital of \$125,964, which was \$124,599 in excess of its required net capital of \$1,365 (net capital ratio of 1.01 to 1); MLV had net capital of \$752, which was \$652 in excess of its required net capital of \$100 (net capital ratio of 1.15 to 1), and BRWM had net capital of \$5,085, which was \$4,443 in excess of its required net capital of \$642 (net capital ratio of 1.14 to 1).

**NOTE 21— RELATED PARTY TRANSACTIONS**



At December 31, 2018, amounts due from related parties include \$194 from GACP I, L.P. (“GACP I”) and \$724 from GACP II, L.P. (“GACP II”) for management fees and other operating expenses and \$812 due from CA Global Partners (“CA Global”) for operating expenses related to wholesale and industrial liquidation engagements managed by CA Global on behalf of GA Global Ptrs. At December 31, 2017, amounts due from related parties include \$5,585 from GACP I, \$52 from GACP II, and \$52 from CA Global for management fees, incentive fees and other operating expenses.

On April 19, 2018, the Company borrowed \$51,020 from GACP II, L.P., a direct lending fund managed by Great American Capital Partners, LLC, a wholly owned subsidiary of the Company. The note was fully repaid as of December 31, 2018. Interest expense was \$2,721 (including amortization of deferred loan fees of \$1,110) for the year ended December 31, 2018. See Note 12 to the accompanying financial statements for additional information.

## **NOTE 22— 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, securities lending, restructuring, consulting, research, sales and trading and wealth management 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 acquisitions of United Online on July 1, 2016 and magicJack on November 14, 2018, the Company provides consumer Internet access and cloud communication services.

The Company’s business is classified into the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment and Principal Investments - United Online and magicJack 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:

	Year Ended December 31,		
	2018	2017	2016
<b>Capital Markets segment:</b>			
Revenues - Services and fees	\$243,268	\$172,695	\$39,335
Interest income - Securities lending	31,798	17,028	—
Total revenues	275,066	189,723	39,335
Selling, general, and administrative expenses	(227,774)	(150,092)	(32,695)
Restructuring charge	(8,378 )	(7,855 )	—
Interest expense - Securities lending	(23,039 )	(12,051 )	—
Depreciation and amortization	(5,723 )	(3,794 )	(549 )
Segment income	10,152	15,931	6,091
<b>Auction and Liquidation segment:</b>			
Revenues - Services and fees	54,923	47,376	61,891
Revenues - Sale of goods	63	3	25,855
Total revenues	54,986	47,379	87,746
Direct cost of services	(19,627 )	(27,841 )	(17,787)
Cost of goods sold	(41 )	(2 )	(14,502)
Selling, general, and administrative expenses	(8,274 )	(8,329 )	(14,331)
Depreciation and amortization	(31 )	(21 )	(26 )
Segment income	27,013	11,186	41,100
<b>Valuation and Appraisal segment:</b>			
Revenues - Services and fees	38,705	33,331	31,749
Direct cost of services	(16,826 )	(14,876 )	(13,983)
Selling, general, and administrative expenses	(10,577 )	(8,561 )	(8,778 )
Depreciation and amortization	(205 )	(181 )	(107 )
Segment income	11,097	9,713	8,881
<b>Principal Investments - United Online and magicJack segment:</b>			
Revenues - Services and fees	53,659	51,439	31,260
Revenues - Sale of goods	575	304	261
Total revenues	54,234	51,743	31,521
Direct cost of services	(15,127 )	(12,784 )	(9,087 )
Cost of goods sold	(759 )	(396 )	(253 )
Selling, general, and administrative expenses	(10,962 )	(11,304 )	(5,974 )
Depreciation and amortization	(7,600 )	(7,033 )	(3,518 )
Restructuring charge	(338 )	(723 )	(3,474 )
Segment income	19,448	19,503	9,215
Consolidated operating income from reportable segments	67,710	56,333	65,287
<b>Corporate and other expenses (including restructuring recovery of \$210 for the year ended December 31, 2018; and restructuring charge of \$3,796 and \$413 for the years ended December 31, 2017 and 2016, respectively.)</b>			
Interest income	1,326	420	318
Income (loss) on equity investments	7,986	(437 )	—

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Interest expense	(33,393 )	(8,382 )	(1,996 )
Income before income taxes	21,303	20,445	47,047
Provision for income taxes	(4,903 )	(8,510 )	(14,321)
Net income	16,400	11,935	32,726
Net income attributable to noncontrolling interests	891	379	11,200
Net income attributable to B. Riley Financial, Inc.	\$ 15,509	\$ 11,556	\$ 21,526

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The following table presents revenues by geographical area:

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Revenues - Services and fees:			
North America	\$389,207	\$301,881	\$135,428
Australia	19	940	26,487
Europe	1,329	2,020	2,320
Total Revenues - Services and fees	\$390,555	\$304,841	\$164,235
Revenues - Sale of goods			
North America	\$638	\$307	\$323
Europe	—	—	25,793
Total Revenues - Sale of goods	\$638	\$307	\$26,116
Revenues - Interest income - Securities lending:			
North America	\$31,798	\$17,028	\$—
Total Revenues:			
North America	\$421,643	\$319,216	\$135,751
Australia	19	940	26,487
Europe	1,329	2,020	28,113
Total Revenues	\$422,991	\$322,176	\$190,351

The following table presents long-lived assets, which consists of property and equipment, net, by geographical area:

	As of December 31, 2018	As of December 31, 2017
Long-lived Assets - Property and Equipment, net:		
North America	\$ 15,489	\$ 11,977
Australia	—	—
Europe	34	—
Total	\$ 15,523	\$ 11,977

Segment assets are not reported to, or used by, the Company's Chief Operating Decision Maker to allocate resources to, or assess performance of, the segments and therefore, total segment assets have not been disclosed.

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**NOTE 23— SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Total revenues	\$95,778	\$125,501	\$99,681	\$102,031
Operating income (loss)	\$10,602	\$28,478	\$12,838	\$(6,534)
Income (loss) before income taxes	\$5,831	\$23,178	\$4,768	\$(12,474)
(Provision for) benefit from income taxes	\$(989)	\$(5,377)	\$(2,046)	\$3,509
Net income (loss)	\$4,842	\$17,801	\$2,722	\$(8,965)
Net income (loss) attributable to B. Riley Financial, Inc.	\$4,503	\$16,997	\$2,814	\$(8,805)
Earnings (loss) per share:				
Basic	\$0.17	\$0.67	\$0.11	\$(0.34)
Diluted	\$0.17	\$0.64	\$0.10	\$(0.34)
Weighted average shares outstanding:				
Basic	26,219,277	25,424,178	25,968,997	26,177,560
Diluted	27,271,819	26,397,513	26,854,261	26,177,560
	Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Total revenues	\$52,897	\$66,676	\$92,426	\$110,177
Operating income	\$10,711	\$2,560	\$1,356	\$14,217
Income (loss) before income taxes	\$10,052	\$816	\$(1,235)	\$10,812
Benefit from (provision for) income taxes	\$3,849	\$2,547	\$1,357	\$(16,263)
Net income (loss)	\$13,901	\$3,363	\$122	\$(5,451)
Net income (loss) attributable to B. Riley Financial, Inc.	\$14,021	\$3,280	\$368	\$(6,113)
Earnings (loss) per share:				
Basic	\$0.73	\$0.15	\$0.01	\$(0.23)
Diluted	\$0.71	\$0.15	\$0.01	\$(0.23)
Weighted average shares outstanding:				
Basic	19,181,749	21,216,829	26,059,490	26,150,502
Diluted	19,626,574	22,119,055	27,639,862	26,150,502