

B. RILEY FINANCIAL, INC.

FORM 10-Q (Quarterly Report)

Filed 08/08/17 for the Period Ending 06/30/17

Address	21255 BURBANK BLVD. SUITE 400 WOODLAND HILLS, CA 91367
Telephone	818-884-3737
CIK	0001464790
Symbol	RILY
SIC Code	7389 - Business Services, Not Elsewhere Classified
Industry	Business Support Services
Sector	Industrials
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

Or

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

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

B. RILEY FINANCIAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

27-0223495
(I.R.S. Employer Identification No.)

21255 Burbank Boulevard, Suite 400
Woodland Hills, CA
(Address of Principal Executive Offices)

91367
(Zip Code)

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

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

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

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting company

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

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

As of August 4, 2017, there were 26,415,753 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

B. Riley Financial, Inc.
Quarterly Report on Form 10-Q
For The Quarter Ended June 30, 2017
Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Unaudited Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Equity for the six months ended June 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2.</u>	30
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	47
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	48
<u>Controls and Procedures</u>	
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	49
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	50
<u>Risk Factors</u>	
<u>Item 2.</u>	50
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	50
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	50
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	50
<u>Other Information</u>	
<u>Item 6.</u>	50
<u>Exhibits</u>	
<u>Signatures</u>	51

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Assets		
Cash and cash equivalents	\$ 104,670	\$ 112,105
Restricted cash	5,632	3,294
Due from clearing brokers	6,297	—
Securities and other investments owned, at fair value	78,204	16,579
Securities borrowed	909,331	—
Accounts receivable, net	19,319	18,989
Due from related parties	6,765	3,009
Advances against customer contracts	40,991	427
Prepaid expenses and other assets	10,986	5,742
Property and equipment, net	13,450	5,785
Goodwill	67,335	48,903
Other intangible assets, net	45,033	41,166
Deferred income taxes	33,407	8,619
Total assets	<u>\$ 1,341,420</u>	<u>\$ 264,618</u>
Liabilities and Equity		
Liabilities		
Accounts payable	\$ 3,184	\$ 2,703
Accrued expenses and other liabilities	62,573	53,168
Deferred revenue	3,731	4,130
Due to related parties and partners	393	10,037
Securities sold not yet purchased	3,526	846
Securities loaned	911,991	—
Mandatorily redeemable noncontrolling interests	9,641	4,019
Acquisition consideration payable	—	10,381
Asset based credit facility	20,237	—
Senior notes payable	86,065	27,700
Contingent consideration	—	1,242
Total liabilities	<u>1,101,341</u>	<u>114,226</u>
Commitments and contingencies		
B. Riley Financial, Inc. stockholders' equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 40,000,000 shares authorized; 24,377,806 and 19,140,342 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	220,628	141,170
Retained earnings	19,054	9,887
Accumulated other comprehensive loss	(666)	(1,712)
Total B. Riley Financial, Inc. stockholders' equity	<u>239,018</u>	<u>149,347</u>
Noncontrolling interests	1,061	1,045
Total equity	<u>240,079</u>	<u>150,392</u>
Total liabilities and equity	<u>\$ 1,341,420</u>	<u>\$ 264,618</u>

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except share data)

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(Dollars in thousands)

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Equity
(Unaudited)
(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2016	—	\$ —	16,448,119	\$ 2	\$ 116,799	\$ (6,305)	\$ (1,058)	\$ (118)	\$ 109,320
Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2016	—	—	166,667	—	—	—	—	—	—
Vesting of restricted stock	—	—	7,306	—	—	—	—	—	—
Offering of common stock, net of offering expenses	—	—	2,420,980	—	22,759	—	—	—	22,759
Share based payments	—	—	—	—	997	—	—	—	997
Net income for the six months ended June 30, 2016	—	—	—	—	—	147	—	1,196	1,343
Foreign currency translation adjustment	—	—	—	—	—	—	(17)	—	(17)
Balance, June 30, 2016	—	\$ —	19,043,072	\$ 2	\$ 140,555	\$ (6,158)	\$ (1,075)	\$ 1,078	\$ 134,402
Balance, January 1, 2017	—	\$ —	19,140,342	\$ 2	\$ 141,170	\$ 9,887	\$ (1,712)	\$ 1,045	\$ 150,392
Issuance of common stock for acquisition of MK Capital, LLC - contingent equity consideration on February 2, 2017	—	—	166,666	—	1,151	—	—	—	1,151
Issuance of common stock for acquisition of Dialectic general partner interests on April 13, 2017	—	—	158,484	—	1,952	—	—	—	1,952
Issuance of common stock for acquisition of FBR & Co. on June 1, 2017	—	—	4,779,354	—	73,472	—	—	—	73,472
Vesting of restricted stock, net of shares withheld for employer taxes	—	—	132,960	—	(1,057)	—	—	—	(1,057)
Share based payments	—	—	—	—	3,940	—	—	—	3,940
Dividends paid	—	—	—	—	—	(8,134)	—	—	(8,134)
Net income for the six months ended June 30, 2017	—	—	—	—	—	17,301	—	16	17,317
Foreign currency translation adjustment	—	—	—	—	—	—	1,046	—	1,046
Balance, June 30, 2017	—	\$ —	24,377,806	\$ 2	\$ 220,628	\$ 19,054	\$ (666)	\$ 1,061	\$ 240,079

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 17,264	\$ 1,343
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,290	399
Provision (recoveries) for doubtful accounts	704	(3)
Share-based compensation	3,940	997
Recovery of key man life insurance	(6,000)	—
Non-cash interest and other	166	54
Effect of foreign currency on operations	(855)	—
Deferred income taxes	(23,636)	271
Impairment of leaseholds, lease loss accrual and loss on disposal of fixed assets	1,371	—
Income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests	7,268	960
Change in operating assets and liabilities:		
Due from clearing brokers	13,408	—
Securities and other investments owned	(40,975)	899
Securities borrowed	(48,134)	—
Accounts receivable and advances against customer contracts	(37,153)	1,087
Prepaid expenses and other assets	14,988	(7,645)
Accounts payable, accrued payroll and related expenses, accrued value added tax payable and other accrued expenses	(22,748)	(5,998)
Amounts due from related parties and partners	(13,333)	(1,935)
Securities sold, not yet purchased	2,675	5,219
Deferred revenue	(425)	—
Securities loaned	44,365	—
Auction and liquidation proceeds payable	—	14,667
Net cash (used in) provided by operating activities	<u>(82,820)</u>	<u>10,315</u>
Cash flows from investing activities:		
Cash acquired from acquisition of FBR & Co.	15,738	—
Acquisition of other businesses	(2,052)	—
Acquisition consideration payable	(10,381)	—
Purchases of property and equipment	(306)	(58)
Proceeds from key man life insurance	6,000	—
Proceeds from sale of property and equipment	6	—
Proceeds from sale of intangible assets	613	—
Increase in restricted cash	(2,263)	(12,026)
Net cash provided by (used in) investing activities	<u>7,355</u>	<u>(12,084)</u>
Cash flows from financing activities:		
Repayment of revolving line of credit	—	(272)
Proceeds from asset based credit facility	65,987	—
Repayment of asset based credit facility	(45,750)	—
Payment of contingent consideration	(1,250)	(1,250)
Proceeds from issuance of senior notes	57,847	—
Proceeds from issuance of common stock	—	22,999
Offering costs from issuance of common stock	—	(240)
Payment of employment taxes on vesting of restricted stock	(1,057)	—
Dividends paid	(8,380)	—
Distribution to noncontrolling interests	(1,646)	(1,441)
Net cash provided by financing activities	<u>65,751</u>	<u>19,796</u>
(Decrease) increase in cash and cash equivalents	(9,714)	18,027
Effect of foreign currency on cash	2,279	84
Net (decrease) increase in cash and cash equivalents	<u>(7,435)</u>	<u>18,111</u>
Cash and cash equivalents, beginning of year	<u>112,105</u>	<u>30,012</u>
Cash and cash equivalents, end of period	<u>\$ 104,670</u>	<u>\$ 48,123</u>
Supplemental disclosures:		
Interest paid	\$ 2,890	\$ 252
Taxes paid	\$ 9,689	\$ 409

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)

NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly-owned and majority-owned subsidiaries. The condensed consolidated financial statements also include the accounts of (a) Great American Global Partners, LLC which is controlled by the Company as a result of its ownership of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations, and (b) GA Retail Investments, L.P. which is controlled by the Company as a result of its ownership of a 50% partnership interest, appointment of executive officers and significant influence over the operations. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company’s management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (“SEC”) on March 10, 2017. The results of operations for the six months ended June 30, 2017 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

(b) Use of Estimates

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

(c) Revenue Recognition

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

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

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

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

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

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

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

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying condensed consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled \$10,509 and \$1,825 for the three months ended June 30, 2017 and 2016, respectively, and \$21,119 and \$4,843 for the six months ended June 30, 2017 and 2016, respectively.

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

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

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

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

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

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

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

(d) Direct Cost of Services

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

(e) Interest Expense - Securities Lending Activities

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

(f) Concentration of Risk

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

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

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

(g) Advertising Expenses

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

(h) Share-Based Compensation

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

(i) Restructuring Charge

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

The following tables summarize the restructuring charge:

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

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

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

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

(j) Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the condensed consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis

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

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

(k) Cash and Cash Equivalents

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

(l) Restricted Cash

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

(m) Securities Borrowed and Securities Loaned

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

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

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

The Company clears all of its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The amount receivable from or payable to the clearing brokers represents the net of proceeds from unsettled securities sold, the Company’s clearing deposit and amounts receivable for commissions less amounts payable for unsettled securities purchased by the Company and amounts payable for clearing costs and other settlement charges. This amount also includes the cash collateral received for securities loaned less cash collateral for securities borrowed. Any amounts payable would be fully collateralized by all of the securities owned by the Company and held on deposit at the clearing broker.

(o) Accounts Receivable

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

(p) Advances Against Customer Contracts

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

(q) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Depreciation and amortization expense was \$696 and \$84 for the three months ended June 30, 2017 and 2016, respectively, and \$1,214 and \$175 for the six months ended June 30, 2017 and 2016, respectively.

(r) Securities Owned and Securities Sold Not Yet Purchased

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

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

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

(s) Fair Value Measurements

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

The Company's securities and other investments owned and securities sold and not yet purchased are comprised of common stocks and warrants, corporate bonds, loans receivable and investments in partnerships. Investments in common stocks are based on quoted prices in active markets which are included in Level 1 of the fair value hierarchy. The Company also holds nonpublic common stocks and warrants for which there is little or no public market and fair value is determined by management on a consistent basis. For investments where little or no public market exists, management's determination of fair value is based on the best available information which may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration various factors including earnings history, financial condition, recent sales prices of the issuer's securities and liquidity risks. These investments are included in Level 3 of the fair value hierarchy. Investments in partnership interests include investments in private equity partnerships that primarily invest in equity securities, bonds, and direct lending funds. The Company's partnership interests are valued based on the Company's proportionate share of the net assets of the partnership which is derived from the most recent statements received from the general partner which are included in Level 2 of the fair value hierarchy. The Company also invests in proprietary investment funds that are valued at net asset value ("NAV") determined by the fund administrator. The underlying securities held by these investment companies are primarily corporate and asset-backed fixed income securities and restrictions exist on the redemption of amounts invested by the Company. As a practical expedient, the Company relies on the NAV of these investments as their fair value. The NAVs that have been provided by the fund administrators are derived from the fair values of the underlying investments as of the reporting date. In accordance with ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," ("ASU 2015-07"), these investment funds are not categorized within the fair value hierarchy.

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

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

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017, Using				
	Fair value at June 30, 2017	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities and other investments owned:				
Common stocks and warrants	\$ 20,771	\$ 11,008	\$ —	\$ 9,763
Corporate bonds	1,620	—	1,620	—
Loan receivable	29,108	—	—	29,108
Partnership interests	21,726	4,660	44	17,022
Total assets measured at fair value	<u>\$ 73,225</u>	<u>\$ 15,668</u>	<u>\$ 1,664</u>	<u>\$ 55,893</u>
Liabilities:				
Securities sold not yet purchased:				
Common stocks	\$ 2,594	\$ 2,594	\$ —	\$ —
Corporate bonds	932	—	932	—
Total securities sold not yet purchased	<u>3,526</u>	<u>2,594</u>	<u>932</u>	<u>—</u>
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	9,641	—	—	9,641
Total liabilities measured at fair value	<u>\$ 13,167</u>	<u>\$ 2,594</u>	<u>\$ 932</u>	<u>\$ 9,641</u>

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

As of June 30, 2017, securities and other investments owned included \$4,979 of investment funds valued at NAV per share. As such, total securities and other investments owned of \$78,204 in the condensed consolidated balance sheets at June 30, 2017 included investments in investment funds of \$4,979 and securities and other investments owned in the amount of \$73,225 as outlined in the fair value table above.

As of June 30, 2017 and December 31, 2016, financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were \$55,893 and \$13,885, respectively, or 4.2% and 5.2%, 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.

The changes in Level 3 fair value hierarchy during the six months ended June 30, 2017 and 2016 are as follows:

	Level 3 Balance at Beginning of Period	Level 3 Changes During the Period			Level 3 Balance at End of Period
		Fair Value Adjustments	Relating to Undistributed Earnings	Purchases, Sales and Settlements	
Six Months Ended June 30, 2017					
Common stocks and warrants	\$ 299	\$ (667)	\$ —	\$ 10,131	\$ 9,763
Corporate bonds	160	—	—	—	—
Loan receivable	—	(100)	—	29,208	29,108
Partnership interests	13,426	2,697	—	899	17,022
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	3,214	6,250	(272)	—	9,641
Contingent consideration	1,242	8	—	(1,250)	—
Six Months Ended June 30, 2016					
Common stocks	\$ 290	\$ (47)	\$ —	\$ —	\$ 243
Corporate bonds	—	—	—	569	569
Partnership interests	1,766	123	418	—	2,307
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	2,330	—	(219)	—	2,111
Contingent consideration	2,391	55	—	(1,250)	1,196

The fair value adjustment for contingent consideration of \$8 and \$55 represents imputed interest for the six months ended June 30, 2017 and 2016, respectively. The Company had a triggering event in the second quarter of 2017 for the mandatorily redeemable noncontrolling interests that resulted in a fair value adjustment of \$6,050 of the total fair value adjustment of \$6,250. In connection with this event, the Company received proceeds of \$6,000 from key man life insurance. These amounts have been recorded in the condensed consolidated statements of operations in Selling, general and administrative expenses in the corporate segment. The amount reported in the table above also for the six months ended June 30, 2017 and 2016 includes the amount of undistributed earnings attributable to the noncontrolling interests that is distributed on a quarterly basis.

The carrying amounts reported in the condensed consolidated financial statements for cash, restricted cash, accounts receivable, accounts payable, 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 six months ended June 30, 2017 and 2016, there were no assets or liabilities measured at fair value on a non-recurring basis.

(t) Contingent Consideration

In connection with the acquisition of MK Capital Advisors, LLC ("MK Capital") on February 2, 2015, the purchase agreement required the payment of contingent consideration to the former members of MK Capital in the form of future cash payments of \$1,250 and issuance of 166,667 shares of common stock on the first anniversary date of the closing (February 2, 2016) and a final cash payment of \$1,250 and issuance of 166,666 shares of common stock on the second anniversary date of the closing (February 2, 2017). The contingent cash consideration was classified as a liability in the condensed balance sheets in accordance with ASC 805, "Business Combination" ("ASC 805"). The fair value of the contingent cash consideration was discounted at 8.0%. The balance of the contingent consideration liability in the condensed consolidated consolidated balance sheets was \$1,242 (discount of \$8) at December 31, 2016. Imputed interest expense totaled \$24 for the three months ended June 30, 2016 and \$8 and \$55 for the six months ended June 30, 2017 and 2016, respectively. The fair value of the contingent stock consideration was classified as equity in accordance with ASC 805.

The contingent cash and stock consideration was payable on the first and second anniversary dates of the closing provided that MK Capital generated a minimum amount of gross revenues as defined in the purchase agreement for the twelve months following the first and second anniversary dates of the closing. MK Capital achieved the minimum amount of revenues for the first and second anniversary periods and the contingent cash consideration and contingent stock consideration for the first anniversary period was paid and issued on February 2, 2016 and for the second anniversary period was paid and issued on February 2, 2017. Upon the payment of the contingent stock consideration on February 2, 2017, the Company recorded a deferred tax benefit and an increase to additional paid-in capital in the amount of \$1,151 in accordance with ASC 805.

(u) 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 six months ended June 30, 2017, the Company's use of derivatives consisted of the purchase of forward exchange contracts in the amount of \$25,000 Australian dollars that was settled on January 31, 2017. The Company did not use any derivative contracts during the six months ended June 30, 2016. 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 from forward exchange contracts was \$0 and \$70 during the three and six months ended June 30, 2017, respectively, and \$39 during the three and six months ended June 30, 2016. This amount is reported as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

The Company transacts business in various foreign currencies. In countries where the functional currency of the underlying operations has been determined to be the local country's currency, revenues and expenses of operations outside the United States are translated into United States dollars using average exchange rates while assets and liabilities of operations outside the United States are translated into United States dollars using period-end exchange rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets. Transaction losses were \$131 and \$35 during the three months ended June 30, 2017 and 2016, respectively and \$530 and \$142 during the six months ended June 30, 2017 and 2016, respectively. These amounts are included in selling, general and administrative expenses in our condensed consolidated statements of operations.

(v) Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under this guidance revenue is recognized at the time when goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. This standard sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance. In March, April, May and December 2016, the FASB issued amendments to the new guidance relating to reporting revenue on a gross versus net basis, identifying performance obligations and licensing arrangements and other narrow scope improvements. This standard is effective in the first quarter of 2018 for public companies and requires either a retrospective or a modified retrospective approach to adoption. The Company believes the adoption of this standard may impact engagements that contain performance-based arrangements in which a success or completion fee is earned when and if certain predefined outcomes occur and engagements and contracts where services are provided under fixed-fees arrangements that have multiple performance obligations. The Company has not completed an assessment and has not yet determined whether the impact of the adoption of this standard on the consolidated financial statements will be material. The Company will adopt this standard on January 1, 2018 but have not concluded on a transition approach. The Company expects to complete the assessment process, including selecting a transition method for adoption during third quarter of 2017.

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

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

NOTE 3— ACQUISITIONS

Acquisition of FBR & Co.

On February 17, 2017, the Company entered into an Agreement and Plan of Merger (the "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 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 \$14,528 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 approximately \$1,389 and included in selling, general and administrative expenses in the condensed consolidated statement of operations for the six months ended June 30, 2017. The preliminary purchase accounting for the acquisition has been accounted for as a stock purchase with all of the recognized goodwill is expected to be non-deductible for tax purposes.

The preliminary purchase price allocation was as follows:

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 ^(a)	2,446
Total consideration	<u>\$ 73,471</u>

- (a) Outstanding FBR restricted stock awards at June 1, 2017, the date of the acquisition, were adjusted in accordance with the 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 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.

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	14,514
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	14,528
Total	<u>\$ 73,471</u>

The revenue and earnings (loss) of FBR included in our condensed consolidated financial statements for the period from June 1, 2017 (the date of acquisition) through June 30, 2017 were \$11,287 and \$(8,956), respectively. The loss from FBR of \$(8,956) includes transaction costs of \$3,551 related to an employment agreement with the former Chief Executive Officer of FBR and a restructuring charge in the amount of \$6,105 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 Rights to Manage Dialectic Hedge Funds

On April 13, 2017, the Company entered into an Asset Purchase and Assignment Agreement with Dialectic Capital Management, L.P., Dialectic Capital, LLC and John Fichthorn (collectively "Dialectic"), pursuant to which Dialectic assigned and transferred the rights to manage certain hedge funds to the Company (the "Dialectic Acquisition"). In addition to obtaining the rights to manage certain hedge funds previously managed by Dialectic, the Company hired the employees that were previously employed by the management company that managed the Dialectic hedge funds and assumed Dialectic's office lease. In connection with the Dialectic Acquisition, the Company paid the Dialectic parties \$700 in cash consideration and 158,484 shares of common stock which has a fair value of approximately \$1,952 for total purchase consideration of \$2,652. The Dialectic Acquisition expands the Company's assets under management in the Capital Markets segment and the Company believes such acquisition will allow the Company to benefit from planned synergies from the elimination of duplicate administrative functions of the Company. The acquisition of Dialectic is accounted for using the purchase method of accounting.

The assets acquired from Dialectic were recorded at fair value as of April 13, 2017, the acquisition date of Dialectic. The application of the purchase method of accounting resulted in preliminary purchase allocation of \$2,552 to goodwill, which represents expected overhead synergies and acquired workforce, and \$100 to other intangible assets - customer relationship for total acquisition consideration of \$2,652. There were tangible assets or liabilities acquired in connection with Dialectic. The preliminary purchase accounting for the acquisition has been accounted for as an asset purchase with all of the recognized goodwill and other intangible assets expected to be deductible for tax purposes.

The revenue and earnings (loss) of Dialectic included in our condensed consolidated financial statements for the period from April 13, 2017 (the date of acquisition) through June 30, 2017 were \$401 and \$(154), respectively.

Acquisition of UOL

On May 4, 2016, the Company entered into a definitive agreement and plan of merger to acquire all of the outstanding common stock of UOL, a provider of consumer Internet access and related subscription services, for \$11.00 per share, or approximately \$169,354 in aggregate merger consideration plus an additional \$1,352 of cash consideration paid to settle the legal matter as more fully described in Note 11. The shareholders of UOL approved the acquisition on June 29, 2016 and customary closing conditions were satisfied and the acquisition was completed on July 1, 2016. The acquisition of UOL allows the Company to benefit from the expected cash flows of UOL due in part to planned synergies from the elimination of duplicate overhead functions with the Company. The acquisition of UOL is accounted for using the purchase method of accounting.

The assets and liabilities of UOL, both tangible and intangible, were recorded at their estimated fair values as of the July 1, 2016 acquisition date for UOL. The application of the purchase method of accounting resulted in goodwill of \$14,375 which represents expected overhead synergies and acquired workforce. The revenue and earnings of UOL included in our condensed consolidated financial statements for the three months ended June 30, 2017 were \$13,015 and \$5,074, respectively, and \$26,397 and \$9,276 respectively, for the six months ended June 30, 2017.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company, FBR and UOL, 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)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	\$ 84,634	\$ 64,377	\$ 173,853	\$ 126,105
Net (loss) income attributable to B. Riley Financial, Inc.	\$ (2,473)	\$ (6,416)	\$ 12,860	\$ (15,634)
Basic (loss) earnings per share	\$ (0.10)	\$ (0.28)	\$ 0.53	\$ (0.62)
Diluted (loss) earnings per share	\$ (0.10)	\$ (0.28)	\$ 0.52	\$ (0.62)
Weighted average basic shares outstanding	24,256,020	22,766,887	24,135,371	25,142,864
Weighted average diluted shares outstanding	24,256,020	22,766,887	24,808,897	25,142,864

NOTE 4— 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.

The following table presents the contractual gross and net securities borrowing and lending balances and the related offsetting amount as of June 30, 2017:

	Gross amounts recognized	Gross amounts offset in the consolidated balance sheets ⁽¹⁾	Net amounts included in the consolidated balance sheets	Amounts not offset in the consolidated balance sheets but eligible for offsetting upon counterparty default ⁽²⁾	Net amounts
As of June 30, 2017					
Securities borrowed	\$ 909,331	\$ —	\$ 909,331	\$ 909,331	\$ —
Securities loaned	\$ 911,991	\$ —	\$ 911,991	\$ 911,991	\$ —

(1) Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.

(2) Includes the amount of cash collateral held/posted.

NOTE 5— ACCOUNTS RECEIVABLE

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

	June 30, 2017	December 31, 2016
Accounts receivable	\$ 13,847	\$ 16,610
Investment banking fees, commissions and other receivables	4,882	576
Unbilled receivables	1,189	2,058
Total accounts receivable	19,918	19,244
Allowance for doubtful accounts	(599)	(255)
Accounts receivable, net	<u>\$ 19,319</u>	<u>\$ 18,989</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	\$ 556	\$ 69	\$ 255	\$ 89
Add: Additions to reserve	379	55	704	60
Less: Write-offs	(144)	(34)	(168)	(34)
Less: Recoveries	(192)	(4)	(192)	(29)
Balance, end of period	<u>\$ 599</u>	<u>\$ 86</u>	<u>\$ 599</u>	<u>\$ 86</u>

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

NOTE 6— GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was \$67,335 and \$48,903 at June 30, 2017 and December 31, 2016, respectively. Goodwill at June 30, 2017 is comprised of \$45,920 in the Capital Markets segment, \$1,975 in the Auction and Liquidation segment, \$3,713 in the Valuation and Appraisal segment and \$15,727 in the Principal Investments - United Online segment. Goodwill in the Capital Markets segment increased by \$14,528 from the acquisition of FBR and \$2,552 from the acquisition of Dialectic. Goodwill in the Principal Investments - United Online segment increased by \$1,352 from the resolution of acquisition related legal matter as more fully described in Note 11. Goodwill at December 31, 2016 is comprised of \$28,840 in the Capital Markets segment, \$1,975 in the Auction and Liquidation segment, \$3,713 in the Valuation and Appraisal segment and \$14,375 in the Principal Investments - United Online segment.

Intangible assets consisted of the following:

	Useful Life	June 30, 2017			December 31, 2016		
		Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Customer relationships	4 to 13 Years	\$ 43,000	\$ 5,515	\$ 37,485	\$ 37,300	\$ 3,100	\$ 34,200
Domain names	7 Years	807	115	692	1,419	101	1,318
Advertising relationships	8 Years	100	12	88	100	6	94
Internally developed software and other intangibles	0.5 to 4 Years	3,373	1,042	2,331	3,333	550	2,783
Trademarks	8 to 9 Years	2,850	153	2,697	1,100	69	1,031
Total		50,130	6,837	43,293	43,252	3,826	39,426
Non-amortizable assets:							
Tradenames		1,740	—	1,740	1,740	—	1,740
Total intangible assets		\$ 51,870	\$ 6,837	\$ 45,033	\$ 44,992	\$ 3,826	\$ 41,166

Amortization expense was \$1,554 and \$111 for the three months ended June 30, 2017 and 2016, respectively, and \$3,076 and \$223 for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, estimated future amortization expense is \$3,359, \$6,476, \$6,371, \$5,989 and \$5,607 for the years ended December 31, 2017 (remaining six months), 2018, 2019, 2020 and 2021, respectively. The estimated future amortization expense after December 31, 2021 is \$15,491.

NOTE 7— CREDIT FACILITIES

Credit facilities consist of the following arrangements:

(a) \$200,000 Asset Based Credit Facility

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. 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 \$668 and \$251 (including amortization of deferred loan fees of \$24) for the three months ended June 30, 2017 and 2016, respectively, and \$695 and \$274 (including amortization of deferred loan fees of \$47) for the six months ended June 30, 2017 and 2016, respectively. The outstanding balance of this credit facility was \$20,237 at June 30, 2017. There was no outstanding balance at December 31, 2016.

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

(b) \$20,000 UOL Line of Credit

On April 13, 2017, UOL, in the capacity as borrower, entered into a credit agreement (the “UOL Credit Agreement”) with the Banc of California, N.A. in the capacity as agent and lender. The UOL Credit Agreement provides for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20,000 which amount is reduced by \$1,500 commencing on June 30, 2017 and on the last day of each calendar quarter thereafter. The final maturity date is April 13, 2020. The proceeds of the UOL Credit Agreement can be used (a) for working capital and general corporate purposes and/or (b) to pay dividends or permitted tax distributions to its parent company, subject to the terms of the UOL Credit Agreement. Borrowings under the UOL Credit Agreement will bear interest at a rate equal to (a) (i) the base rate (the greater of the federal funds rate plus one half of one percent (0.5%), or the prime rate) for U.S. dollar loans or (ii) at UOL’s option, the LIBOR Rate for Eurodollar loans, plus (b) the applicable margin rate, which ranges from two percent (2%) to three and one-half percent (3.5%) per annum, based upon UOL’s ratio of funded indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the preceding four (4) fiscal quarters. Interest payments are to be made each one, three or six months for Eurodollar loans, and quarterly for U.S. dollar loans.

UOL paid a commitment fee equal to 1.00% of the aggregate commitments upon the closing of the UOL Credit Agreement. The UOL Credit Agreement also provides for an unused line fee payable quarterly, in arrears, in an amount equal to: (a) 0.50% per annum times the amount of the unused revolving commitment that is less than or equal to the amount of the cash maintained in accounts with the agent (as depository bank); plus (b) 1.00% per annum times the amount of the unused revolving commitment that is greater than the amount of the cash maintained in accounts with the agent (as depository bank). Any amounts outstanding under the UOL Credit Facility are due at maturity. There was no outstanding balance under the UOL Credit Agreement at June 30, 2017.

Each of UOL’s U.S. subsidiaries is a guarantor of all obligations under the UOL Credit Agreement and are parties to the UOL Credit Agreement in such capacity (collectively, the “Secured Guarantors”). In addition, the Company and B. Riley Principal Investments, LLC, the parent corporation of UOL and a subsidiary of the Company, are guarantors of the obligations under the UOL Credit Agreement pursuant to standalone guaranty agreements pursuant to which the shares of outstanding capital stock of UOL are pledged as collateral. The obligations under the UOL Credit Agreement are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of UOL and the Secured Guarantors, including a pledge of (a) 100% of the equity interests of the Secured Guarantors and (b) 65% of the equity interests in United Online Software Development (India) Private Limited, a private limited company organized under the laws of India. Such security interests are evidenced by pledge, security and other related agreements.

The UOL Credit Agreement contains certain negative covenants, including those limiting UOL’s and its 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 UOL Credit Agreement requires UOL and its subsidiaries to maintain certain financial ratios.

NOTE 8—NOTES PAYABLE

(a) \$28,750 Senior Notes Payable due October 31, 2021

On November 2, 2016, the Company issued \$28,750 of Senior Notes Payable (“2021 Notes”) due in 2021, interest payable quarterly at 7.5% commencing January 31, 2017. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, the Company received net proceeds of \$27,664 (after underwriting commissions, fees and other issuance costs of \$1,086). The outstanding balance of the 2021 Notes was \$27,808 (net of unamortized debt issue costs of \$942) and \$27,700 (net of unamortized debt issue costs of \$1,050) at June 30, 2017 and December 31, 2016, respectively. In connection with the offering of 2021 Notes, certain members of management and the Board of Directors of the Company purchased \$2,731 or 9.5% of the 2021 Notes offered by the Company. Interest expense on the 2021 Notes totaled \$593 and \$1,186 for the three and six months ended June 30, 2017, respectively.

(b) \$60,375 Senior Notes Payable due May 31, 2027

On May 31, 2017, the Company issued \$60,375 of Senior Notes Payable (“2027 Notes”) due in 2027, interest payable quarterly at 7.5% 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 2027 Notes, the Company received net proceeds of \$58,239 (after underwriting commissions, fees and other issuance costs of \$2,136). The outstanding balance of the 2027 Notes was \$58,257 (net of unamortized debt issue costs of \$2,118) at June 30, 2017. Interest expense on the 2027 Notes totaled \$403 for the three and six months ended June 30, 2017.

(c) At Market Issuance Sales Agreement to Issue Up to Aggregate of \$39,625 of 2021 Notes or 2027 Notes

On June 28, 2017, the Company entered into an At The Market Issuance Sales Agreement (the “Sales Agreement”) and filed a prospectus supplement, pursuant to which the Company may sell from time to time, at the Company’s option up to an aggregate of \$39,625 of 2021 Notes or 2027 Notes. The Notes sold pursuant to the Sales Agreement will be issued pursuant to a prospectus dated March 29, 2017, as supplemented by a prospectus supplement dated June 28, 2017, in each case filed with the Securities and Exchange Commission pursuant to the Company’s effective Registration Statement on Form S-3 (File No. 333-216763), which was declared effective by the SEC on March 29, 2017. The Notes will be issued pursuant to the Indenture, dated as of November 2, 2016, as supplemented by a First Supplemental Indenture, dated as of November 2, 2016 and the Second Supplemental Indenture, dated as of May 31, 2017, each between the Company and U.S. Bank, National Association, as trustee. Future sales of the 2021 Notes and 2027 Notes pursuant to the Sales Agreement will depend on a variety of factors including, but not limited to, market conditions, the trading price of the notes and the Company’s capital needs. There can be no assurance that the Company will be successful in consummating future sales based on prevailing market conditions or in the quantities or at the prices that the Company may deem appropriate.

(d) 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 June 30, 2017 and December 31, 2016, \$393 and \$10,037, respectively, were payable in accordance with the participating note payable share of profits and is included in due to related parties and partners in the condensed consolidated balance sheets.

NOTE 9— INCOME TAXES

The Company’s effective income tax rate was a benefit of 58.9% and an expense of 7.0% for the six months ended June 30, 2017 and 2016, respectively. During the six months ended June 30, 2017, the Company elected to treat the acquisition of UOL as a taxable business combination for income tax purposes in accordance with Internal Revenue Code Section 338(g) (“IRS Code Section 338(g)"). This resulted in the Company foregoing the income tax attributes of UOL that existed at the acquisition date which included net operating loss carryforwards, capital loss carryforwards and foreign tax credits. The income tax election in accordance with IRS Code Section 338(g) provides the Company with a tax step-up in the basis of the intangible assets and goodwill acquired for tax purposes. In accordance with ASC 740, the impact of the election in accordance with IRS Code Section 338(g) on deferred income taxes resulted in the recording of a tax benefit in the amount of \$8,389 during the six months ended June 30, 2017. The effective income tax rate for the six months ended June 30, 2016 was lower than the statutory federal and state income tax rate due to the tax differential on net income attributable to noncontrolling interests.

As of June 30, 2017, the Company had federal net operating loss carry forwards of approximately \$35,200 and state net operating loss carry forwards of \$39,400. The Company’s federal net operating loss carry forwards will expire in the tax year ending December 31, 2035, the state net operating loss carry forwards will expire in 2034, and the foreign tax credit carry forwards will expire in 2023.

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax benefits of operating loss and tax credit carry forwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carry forward period, and other circumstances. As a result of the common stock offering by the Company that was completed on 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 June 30, 2017, the Company believes that the net operating loss that existed as of the more than 50% ownership shift will be utilized in future tax periods before the loss carry forwards expire and it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

The Company 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, 2013 to 2016.

NOTE 10— EARNINGS PER SHARE

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

Basic and diluted earnings per share was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss) attributable to B. Riley Financial, Inc.	\$ 3,280	\$ (101)	\$ 17,301	\$ 147
Weighted average shares outstanding:				
Basic	21,216,829	17,935,254	20,311,231	17,212,716
Effect of dilutive potential common shares:				
Restricted stock units and non-vested shares	857,459	—	628,759	289,705
Contingently issuable shares	44,767	—	44,767	44,652
Diluted	22,119,055	17,935,254	20,984,757	17,547,073
Basic income (loss) per share	\$ 0.15	\$ (0.01)	\$ 0.85	\$ 0.01
Diluted income (loss) per share	\$ 0.15	\$ (0.01)	\$ 0.82	\$ 0.01

NOTE 11— COMMITMENTS AND CONTINGENCIES

Legal Matters

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

In January 2015, Great American Group, LLC ("Great American Group") was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding in the United States Bankruptcy Court for the District of Delaware ("Bankruptcy Court") is pending in the bankruptcy case of the debtor and its affiliates (the "Debtor"). In the lawsuit, a former landlord of the Debtor generally alleges that Great American Group and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking approximately \$10,000 in damages. In January 2017, the parties filed a proposed scheduling order with the Bankruptcy Court. Discovery in the action is currently proceeding. Great American Group is vigorously defending this lawsuit. This lawsuit is ongoing, and the financial impact to the Company, if any, cannot be estimated.

On July 5, 2016, Quadre Investments LP (“Quadre”) filed a petition with the Delaware Court of Chancery (the “Court”) seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by the Company. Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre petitioned the Court to receive fair value as determined by the Court. On June 30, 2017, the parties settled the action and the petition was dismissed. As discussed in Note 3, the settlement of this action resulted in an increased in goodwill.

In May 2014, Waterford Township Police & Fire Retirement System et al. v. Regional Management Corp et al., filed a complaint in the Southern District of New York (the “Court”), against underwriters alleging violations under sections 11 and 12 of the Securities Act of 1933, as amended (the “Securities Act”). FBR Capital Markets & Co. (“FBRCM”), a broker-dealer subsidiary of ours, was a co-manager of 2 offerings. On January 30, 2017, the Court denied the plaintiffs’ motion to file a first amended complaint, which would have revived claims previously dismissed by the Court on March 30, 2016. On March 1, 2017, the plaintiffs filed a notice of appeal and the plaintiff’s opening brief was due on June 21, 2017. Defendant’s opposition motion is due by September 12, 2017. Regional Management continues to indemnify all of the underwriters, including FBRCM, pursuant to the operative underwriting agreement.

On January 5, 2017, the 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. 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. Briefing on the defendants’ motions to dismiss has been filed with the court.

In April 2017, two purported shareholders of FBR filed a putative class action against FBR and the members of its board of directors that challenged the disclosures made in connection with the merger of FBR with the Company, styled *Michael Rubin v. FBR & Co., et al.*, Case No. 1:17-cv-00410-LMB-MSN and *Kim v. FBR & Co., et al.* Case No. 1:17-cv-004440-LMB-IDD. The complaints alleged that the registration statement filed in connection with the Merger failed to disclose certain allegedly material information in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 14a-9 promulgated thereunder. On July 12, 2017, per stipulation, the complaints were dismissed - with prejudice as to the named plaintiffs only, without prejudice as to the class. The Company expects the plaintiffs to seek the payment of mootness fee in the near future.

In February 2017, certain former employees filed an arbitration claim with FINRA against Wunderlich Securities, Inc. (“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 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 claims are meritless and intends to vigorously defend the action. A hearing has been scheduled for March, 2018.

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 million plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

NOTE 12— SHARE-BASED PAYMENTS

(a) Amended and Restated 2009 Stock Incentive Plan

During the six months ended June 30, 2017, the Company granted restricted stock units representing 467,025 shares of common stock with a total fair value of \$7,416 to certain employees of the Company under the Company’s Amended and Restated 2009 Stock Incentive Plan (the “Plan”). During the year ended December 31, 2016, the Company granted restricted stock units representing 544,605 shares of common stock with a total fair value of \$5,301 to certain employees and directors of the Company under the Plan. Share-based compensation expense for such restricted stock units was \$1,305 and \$2,212 for the three and six months ended June 30, 2017, respectively. Share-based compensation expense for such restricted stock units was \$560 and \$997 for the three and six months ended June 30, 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 June 30, 2017, the expected remaining unrecognized share-based compensation expense of \$10,365 will be expensed over a weighted average period of 2.4 years.

A summary of equity incentive award activity under the Plan for the six months ended June 30, 2017 was as follows:

	Shares	Weighted Average Fair Value
Nonvested at December 31, 2016	680,135	\$ 9.74
Granted	467,025	15.88
Vested	(172,431)	10.50
Forfeited	(29,724)	10.49
Nonvested at June 30, 2017	<u>945,005</u>	<u>\$ 12.61</u>

The per-share weighted average grant-date fair value of restricted stock units was \$15.88 during the six months ended June 30, 2017. There were 172,431 restricted stock units with a fair value of \$1,810 that vested during the six months ended June 30, 2017 under the Plan.

(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. On June 13, 2017, the Company granted restricted stock units representing 475,819 shares of common stock with a total grant date fair value of \$7,375. Share-based compensation expense was \$120 for the three and six months ended June 30, 2017 in connection with the June 13, 2017 restricted stock award. In connection with the restructuring discussed in Note 2(i), the Company recorded share-based compensation expense of \$1,424 related to the accelerated vesting of restricted stock awards. Of the \$1,424, \$884 related to former corporate executives of FBR and \$540 related to employees in the Capital Markets segment. As of June 30, 2017, the expected remaining unrecognized share-based compensation expense of \$9,965 will be expensed over a weighted average period of 2.6 years.

A summary of equity incentive award activity for the period from June 1, 2017, the date of the acquisition of FBR, through June 30, 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	475,819	15.50
Vested	(22,136)	14.70
Forfeited	(10,952)	14.70
Nonvested at June 30, 2017	<u>973,392</u>	<u>\$ 15.09</u>

NOTE 13— NET CAPITAL REQUIREMENTS

B. Riley & Co., LLC (“BRC”), FBRCM and MLV, the Company’s broker-dealer subsidiaries, are registered with the SEC as broker-dealers and are members of the Financial Industry Regulatory Authority, Inc. (“FINRA”). As such, they are subject to the minimum net capital requirements promulgated by the SEC. As of June 30, 2017, BRC had net capital of \$9,082, which was \$8,740 in excess of its required net capital of \$342, FBRCM had net capital of \$37,755, which was \$36,755 in excess of its required net capital of \$1,000, and MLV had net capital of \$411, which was \$311 in excess of its required net capital of \$100.

NOTE 14— RELATED PARTY TRANSACTIONS

At June 30, 2017, amounts due from related parties include \$4,080 from GACP I, L.P. for management fees, incentive fees and other operating expenses and \$2,685 from CA Global Partners, LLC (“CA Global”). At December 31, 2016, amounts due from related parties include \$2,050 from GACP I, L.P. for management fees, incentive fees and other operating expenses and \$959 from CA Global Partners, LLC (“CA Global”). Great American Capital Partners, LLC, a subsidiary of the Company, is the general partner of GACP I, L.P. CA Global is one of the members of Great American Global Partners, LLC (“GA Global Ptrs”). The amounts receivable and payable from CA Global are comprised of amounts due to and due from CA Global in connection with certain auctions of wholesale and industrial machinery and equipment that they were managed by CA Global on behalf of GA Global Ptrs.

In connection with the offering of \$28,750 of 2021 Notes as more fully described in Note 8, certain members of management and the Board of Directors of the Company purchased \$2,731 or 9.5% of the Senior Notes offered by the Company.

NOTE 15— 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, 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 acquisition of UOL on July 1, 2016, the Company provides consumer services and products over the Internet.

The Company's business is classified into the Capital Markets segment, Auction and Liquidation segment, Valuation and Appraisal segment and Principal Investments - United Online segment. These reportable segments are all distinct businesses, each with a different marketing strategy and management structure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Capital Markets reportable segment:				
Revenues - Services and fees	\$ 21,676	\$ 7,172	\$ 39,399	\$ 12,736
Interest income - Securities lending	2,218	—	2,218	—
Total revenues	23,894	7,172	41,617	12,736
Selling, general, and administrative expenses	(23,067)	(7,669)	(34,036)	(13,843)
Restructuring costs	(3,923)	—	(3,923)	—
Interest expense - Securities lending	(1,565)	—	(1,565)	—
Depreciation and amortization	(166)	(23)	(293)	(44)
Segment (loss) income	(4,827)	(520)	1,800	(1,151)
Auction and Liquidation reportable segment:				
Revenues - Services and fees	21,807	5,393	35,803	12,300
Revenues - Sale of goods	—	—	—	2
Total revenues	21,807	5,393	35,803	12,302
Direct cost of services	(11,763)	(2,087)	(22,097)	(5,505)
Cost of goods sold	—	—	—	(2)
Selling, general, and administrative expenses	(2,749)	(1,577)	(4,599)	(2,802)
Depreciation and amortization	(5)	(37)	(10)	(78)
Segment income	7,290	1,692	9,097	3,915
Valuation and Appraisal reportable segment:				
Revenues - Services and fees	7,960	7,696	15,756	15,169
Direct cost of services	(3,581)	(3,473)	(7,253)	(6,738)
Selling, general, and administrative expenses	(2,062)	(2,124)	(4,142)	(4,243)
Depreciation and amortization	(43)	(24)	(87)	(53)
Segment income	2,274	2,075	4,274	4,135
Principal Investments - United Online segment:				
Revenues - Services and fees	12,952	—	26,255	—
Revenues - Sale of goods	63	—	142	—
Total revenues	13,015	—	26,397	—
Direct cost of services	(3,141)	—	(6,736)	—
Cost of goods sold	(130)	—	(189)	—
Selling, general, and administrative expenses	(2,791)	—	(6,103)	—
Depreciation and amortization	(1,770)	—	(3,610)	—
Restructuring costs	(109)	—	(483)	—
Segment income	5,074	—	9,276	—
Consolidated operating income from reportable segments	9,811	3,247	24,447	6,899
Corporate and other expenses (including restructuring costs of \$2,182 for the three and six months ended June 30, 2017)	(7,251)	(3,067)	(11,176)	(5,054)
Interest income	150	3	282	6
Interest expense	(1,894)	(275)	(2,685)	(407)
Income (loss) before income taxes	816	(92)	10,868	1,444
Benefit (provision) for income taxes	2,547	65	6,396	(101)
Net income (loss)	3,363	(27)	17,264	1,343
Net income (loss) attributable to noncontrolling interests	83	74	(37)	1,196
Net income (loss) attributable to B. Riley Financial, Inc.	\$ 3,280	\$ (101)	\$ 17,301	\$ 147

The following table presents revenues by geographical area:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Revenues - Services and fees:				
North America	\$ 64,310	\$ 19,600	\$ 115,372	\$ 39,538
Australia	99	—	1,039	—
Europe	(14)	661	802	667
Total Revenues - Services and fees	\$ 64,395	\$ 20,261	\$ 117,213	\$ 40,205
Revenues - Sale of goods				
North America	\$ 63	\$ —	\$ 142	\$ 2
Revenues - Interest income - Securities lending:				
North America	\$ 2,218	\$ —	\$ 2,218	\$ —
Total Revenues:				
North America	\$ 66,591	\$ 19,600	\$ 117,732	\$ 39,540
Australia	99	—	1,039	—
Europe	(14)	661	802	667
Total Revenues	\$ 66,676	\$ 20,261	\$ 119,573	\$ 40,207

The following table presents long-lived assets, which consists of property and equipment and other assets, by geographical area:

	As of June 30, 2017	As of December 31, 2016
Long-lived Assets - Property and Equipment, net:		
North America	\$ 13,450	\$ 5,785
Australia	—	—
Europe	—	—
Total	\$ 13,450	\$ 5,785

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.

NOTE 16— SUBSEQUENT EVENTS

Acquisition of Wunderlich Securities, Inc.

On May 17, 2017, the Company and certain wholly owned subsidiaries of the Company entered into a Merger Agreement with Wunderlich Investment Company, Inc., a Delaware corporation ("Wunderlich"), and Stephen Bonnema, in his capacity as the Stockholder Representative (the "Stockholder Representative"), collectively (the "Wunderlich Merger Agreement"). Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. The Company also entered into a registration rights agreement with certain shareholders of Wunderlich (the "Registration Rights Agreement") on July 3, 2017. The Registration Rights Agreement provides the Wunderlich shareholder signatories 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. In connection with the acquisition Wunderlich on July 3, 2017, the total consideration of \$72,958 included \$36,649 of cash used to retire existing Wunderlich preferred stock and debt and the issuance of 1,974,812 shares of the Company's common stock with an estimated fair value of \$31,414 and 821,816 newly issued common stock warrants with an estimated fair value of \$4,895. The Company has not completed the preliminary purchase price accounting since it is in the process of completing its asset and liquidity appraisals related to this acquisition.

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

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

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly 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 condensed consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made in Item 1A of Part II of this Quarterly Report under the caption “Risk Factors.”

Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; changing conditions in the financial markets; our ability to generate sufficient revenues to achieve and maintain profitability; the short term nature of our engagements; the accuracy of our estimates and valuations of inventory or assets in “guarantee” based engagements; competition in the asset management business; potential losses related to our auction or liquidation engagements; our dependence on communications, information and other systems and third parties; potential losses related to purchase transactions in our auction and liquidations business; the potential loss of financial institution clients; potential losses from or illiquidity of our proprietary investments; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete in any of our segments; loss of key personnel; our ability to borrow under our credit facilities 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; the reaction to our recently completed acquisition of 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 Quarterly Report to the “Company,” “B. Riley,” “we,” “us” or “our” refer to the combined business of B. Riley Financial, Inc. and all of its subsidiaries.

Overview

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

- B. Riley & Co., LLC (“BRC”) and FBR & Co. (“FBR”), are mid-sized, full service investment banks providing financial advisory, corporate finance, research, securities lending and sales & trading services to corporate, institutional and high net worth individual clients;
- B. Riley Capital Management, LLC, a Securities and Exchange Commission (“SEC”) registered investment advisor, which includes:
 - B. Riley Asset Management, an advisor to certain private funds and to institutional and high net worth investors;
 - B. Riley Wealth Management (formerly MK Capital Advisors), a multi-family office practice and wealth management firm focused on the needs of ultra-high net worth individuals and families; and
 - Great American Capital Partners, LLC (“GACP”), the general partner of a private fund, GACP I, L.P. a direct lending fund that provides senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

- Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients;
- Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients; and

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

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

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

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

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

Recent Developments

On February 17, 2017, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with FBR & Co. (“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 shareholders 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 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 our common stock. The total acquisition consideration for FBR was estimated to be \$73.5 million, which includes the issuance of approximately 4,831,633 shares of our common stock with an estimated fair value of \$71.0 million (based on the closing price of our common stock on June 1, 2017) and restricted stock awards with a fair value of \$2.5 million attributable to the service period prior to June 1, 2017. We believe that the acquisition of FBR will allow us 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 us.

In connection with terms of the Merger Agreement, on June 1, 2017 the number of directors comprising our full Board of Directors was increased by one, with Richard J. Hendrix, Chairman, President and Chief Executive Officer of FBR, being appointed to fill the new seat in accordance with the terms of his employment agreement. Concurrently with the appointment of Mr. Hendrix, the number of directors comprising our full Board of Directors was again increased by one, with Robert L. Antin appointed as an independent director to fill the new seat.

On May 17, 2017, we entered into a Merger Agreement with Wunderlich Investment Company, Inc., a Delaware corporation (“Wunderlich”), and Stephen Bonnema, in his capacity as the Stockholder Representative (the “Stockholder Representative”), collectively (the “Wunderlich Merger Agreement”). Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. We also entered into a registration rights agreement with certain shareholders of Wunderlich (the “Registration Rights Agreement”) on July 3, 2017. The Registration Rights Agreement provides the Wunderlich shareholder signatories 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 connection with the acquisition Wunderlich on July 3, 2017, the total consideration of \$73.0 million included \$36.7 million of cash used to retire existing Wunderlich preferred stock and debt and the issuance of approximately 1,974,812 shares of the Company’s common stock with an estimated fair value of \$31.4 million and 821,816 newly issued common stock warrants with an estimated fair value of \$4.9 million.

In connection with terms of the Wunderlich Merger Agreement, on July 5, 2017 the number of directors comprising our full Board of Directors was increased by one, with Gary K. Wunderlich, Jr., Chief Executive Officer of Wunderlich, being appointed to fill the new seat in accordance with the terms of his employment agreement. Concurrently with the appointment of Mr. Wunderlich, the number of directors comprising our full Board of Directors was again increased by one, with Michael J. Sheldon appointed as an independent director to fill the new seat.

In June 2017, we implemented cost savings measures taking into account the planned synergies as a result of the acquisition of FBR which included a reduction in force for some of the corporate executives of FBR and a restructuring to integrate FBR’s operations with our operations in the Capital Market’s segment. These initiatives resulted in a restructuring charge of \$6.1 million in the second quarter of 2017. The restructuring charge included \$2.2 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of FBR and \$3.3 million of severance, accelerated vesting of stock awards to employees and \$0.6 million of lease loss accruals for the planned consolidation of office space related to operations in the Capital Markets segment.

Critical Accounting Policies

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, reserves for accounts receivable and slow moving goods held for sale or auction, the carrying value of goodwill and other intangible assets, fair value measurements, share-based compensation and accounting for income tax valuation allowances can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There have been no material changes to the policies noted above as of this quarterly report on Form 10-Q for the period ended June 30, 2017.

Results of Operations

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

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Condensed Consolidated Statements of Operations (Dollars in thousands)

	Three Months June 30, 2017		Three Months June 30, 2016	
	Amount	%	Amount	%
Revenues:				
Services and fees	\$ 64,395	96.6%	\$ 20,261	100.0%
Interest income - Securities lending	2,218	3.3%	—	0.0%
Sale of goods	63	0.1%	—	0.0%
Total revenues	<u>66,676</u>	100.0%	<u>20,261</u>	100.0%
Operating expenses:				
Direct cost of services	18,485	27.7%	5,560	27.4%
Cost of goods sold	130	0.2%	—	0.0%
Selling, general and administrative expenses	37,722	56.6%	14,521	71.7%
Restructuring costs	6,214	9.3%	—	0.0%
Interest expense - Securities lending	1,565	2.3%	—	0.0%
Total operating expenses	<u>64,116</u>	96.2%	<u>20,081</u>	99.1%
Operating income	2,560	3.8%	180	0.9%
Other income (expense):				
Interest income	150	0.2%	3	0.0%
Interest expense	(1,894)	(2.8%)	(275)	(1.3%)
Income (loss) before income taxes	816	1.2%	(92)	(0.4%)
Benefit for income taxes	2,547	3.8%	65	0.3%
Net income (loss)	3,363	5.0%	(27)	(0.1%)
Net income attributable to noncontrolling interests	83	0.1%	74	0.4%
Net income (loss) attributable to B. Riley Financial, Inc.	<u>\$ 3,280</u>	4.9%	<u>\$ (101)</u>	(0.5%)

Revenues

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

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and Fees:						
Capital Markets segment	\$ 21,676	32.5%	\$ 7,172	35.4%	\$ 14,504	202.2%
Auction and Liquidation segment	21,807	32.7%	5,393	26.6%	16,414	304.4%
Valuation and Appraisal segment	7,960	11.9%	7,696	38.0%	264	3.4%
Principal Investments - United Online segment	12,952	19.4%	—	n/m	12,952	n/m
Subtotal	64,395	96.6%	20,261	100.0%	44,134	217.8%
Revenues - Sale of goods						
Principal Investments - United Online segment	63	0.1%	—	n/m	63	n/m
Interest income - Securities lending						
Capital Markets segment	2,218	3.3%	—	n/m	2,218	n/m
Total revenues	\$ 66,676	100.0%	\$ 20,261	100.0%	\$ 46,415	229.1%

n/m - Not applicable or not meaningful.

Total revenues increased \$46.4 million to \$66.7 million during the three months ended June 30, 2017 from \$20.3 million during the three months ended June 30, 2016. The increase in revenues during the three months ended June 30, 2017 was primarily due to an increase in revenues from services and fees of \$44.1 million, an increase in revenues from interest income – securities lending of \$2.2 million and an increase in revenues from the sale of goods of \$0.1 million. The increase in revenues from services and fees of \$44.1 million in 2017 was primarily due to an increase in revenues of (a) \$14.5 million in the capital markets segment, (b) \$16.4 million in the auction and liquidation segment, (c) \$0.3 million in the valuation and appraisal segment, and (d) \$13.0 million in the principal investments - United Online segment from the acquisition of UOL on July 1, 2016. The increase in \$2.2 million of interest income – securities lending was as a result of the acquisition of FBR. The increase in revenues from sale of goods of \$0.1 million was primarily due to sale of certain products in the principal investments - United Online segment.

Revenues from services and fees in the capital markets segment increased \$14.5 million, to \$21.7 million during the three months ended June 30, 2017 from \$7.2 million during the three months ended June 30, 2016. The increase in revenues was primarily due to an increase in revenues of \$9.1 million from investment banking fees, \$5.1 million from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services and \$0.3 million from trading income. The increase in revenues from investment banking fees was primarily due to an increase of \$6.2 million from the acquisition of FBR on June 1, 2017 and \$2.9 million 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. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage which included \$2.5 million of revenues from the acquisition of FBR on June 1, 2017. The increase in revenues from trading income in 2017 was primarily due to an increase in income we earned from trading activities in our proprietary trading account.

Revenues from services and fees in the auction and liquidation solutions increased \$16.4 million, to \$21.8 million during the three months ended June 30, 2017 from \$5.4 million during the three months ended June 30, 2016. The increase in revenues of \$16.4 million was primarily due to an increase in revenues of \$15.4 million from services and fees from retail liquidation engagements and \$1.0 million from services and fees in our wholesale and industrial auction division. The increase in revenues from services and fees from retail liquidation engagements was primarily due to an increase in the number of fee and commission based retail liquidation engagements for store closings and going-out-of-business sales in 2017 as compared to the same period in 2016. The increase in revenues from services and fees in our wholesale and industrial division was primarily due to a increase 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 \$0.3 million, or 3.4%, to \$8.0 million during the three months ended June 30, 2017 from \$7.7 million during the three months ended June 30, 2016. The increase in revenues was primarily due to increases of (a) \$0.2 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors and (b) \$0.1 million related to appraisal engagements where we perform valuations of machinery and equipment.

Revenues from services and fees in the principal investments - United Online segment of \$13.0 million during the three months ended June 30, 2017 were the result of the acquisition of UOL on July 1, 2016. These revenues include \$9.8 million in services and fees primarily from customer paid accounts related to our Internet access and related subscription services and \$3.2 million in advertising revenues from Internet display advertising and search related to our email and Internet access services. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments - United Online segment to continue to decline year over year.

Operating Expenses

Direct Cost of Services. Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the three months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Total	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Total
Revenues - Services and fees	\$ 21,807	\$ 7,960	\$ 12,952		\$ 5,393	\$ 7,696	\$ —	
Direct cost of services	11,763	3,581	3,141	\$ 18,485	2,087	3,473	—	\$ 5,560
Gross margin on services and fees	\$ 10,044	\$ 4,379	\$ 9,811		\$ 3,306	\$ 4,223	\$ —	
Gross margin percentage	46.1%	55.0%	75.7%		61.3%	54.9%	n/m	

n/m - Not applicable or not meaningful.

Total direct costs increased \$12.9 million, to \$18.5 million during the three months ended June 30, 2017 from \$5.6 million during the three months ended June 30, 2016. Direct costs of services increased by (a) \$9.7 million in the auction and liquidation segment, (b) \$0.1 million in the valuation and appraisal segment, and (c) \$3.1 million in the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016. The increase in direct costs in the auction and liquidation segment was primarily due to an increase in the number of fee and commission type engagements in 2017 and compared to the same period in 2016. The increase in direct costs of services in the valuation and appraisal segment was primarily due to an increase in payroll and related expenses due to an increase headcount 2017 as compared to the same period in 2016.

Gross margin in the auction and liquidation segment for services and fees decreased to 46.1% of revenues during the three months ended June 30, 2017, as compared to 61.3% of revenues during the three months ended June 30, 2016. Although the gross margin percentage decreased during the three months ended June 30, 2017 as compared to the same period in 2016, primarily due to a change in the mix of fee and commission type engagements, the overall gross margin in the auction and liquidation segment increased by \$6.7 million, from \$3.3 million to \$10.0 million. The increase in gross margin on services and fees was primarily due to an increase in the number of fee and commission type retail liquidation engagements during the second quarter of 2017 as compared to the same period in 2016.

Gross margin in the valuation and appraisal segment for services and fees increased to 55.0% of revenues during the three months ended June 30, 2017, from 54.9% of revenues during the three months ended June 30, 2016. The increase in gross margin is primarily due to a decrease in payroll and related expenses during the three months ended June 30, 2017 as compared to same period in 2016.

Selling, General and Administrative Expenses. Selling, general and administrative expenses during the three months ended June, 2017 and 2016 were comprised of the following:

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016		Change	
	Amount	%	Amount	%	Amount	%
Capital Markets segment	\$ 23,233	61.6%	\$ 7,692	53.0%	\$ 15,541	202.0%
Auction and Liquidation segment	2,754	7.3%	1,614	11.1%	1,140	70.6%
Valuation and Appraisal segment	2,105	5.6%	2,148	14.8%	(43)	(2.0%)
Principal Investments - United Online segment	4,561	12.1%	—	n/m	4,561	n/m
Corporate and Other segment	5,069	13.4%	3,067	21.1%	2,002	65.3%
Total selling, general & administrative expenses	\$ 37,722	100.0%	\$ 14,521	100.0%	\$ 23,201	159.8%

Total selling, general and administrative expenses increased \$23.2 million, to \$37.7 million during the three months ended June 30, 2017 from \$14.5 million for the three months ended June 30, 2016. The increase was primarily due to an increase in selling, general and administrative expenses of (a) \$15.5 million in the capital markets segment, (b) \$1.1 million in the auction and liquidation segment, (c) \$4.6 million in the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, and (d) \$2.0 million in corporate and other.

Capital Markets

Selling, general and administrative expenses in the capital markets segment increased by \$15.5 million to \$23.2 million during the three months ended June 30, 2017 from \$7.7 million during the three months ended June 30, 2016. The increase in expenses was primarily due to an increase in (a) operating costs of \$12.6 million related to the acquisition of FBR on June 1, 2016, (b) payroll and related expenses of \$2.5 million primarily related to an increase in incentive compensation as a result of the increase in revenues from investment banking fees in 2017 as compared to the same period in 2016, and (c) other operating expenses of \$0.4 million.

Auction and Liquidation

Selling, general and administrative expenses in the auction and liquidation segment increased \$1.1 million, or 70.6%, to \$2.8 million during the three months ended June 30, 2017 from \$1.6 million for the three months ended June 30, 2016. The increase in expenses was primarily due to an increase in (a) payroll and related expenses in the amount of \$0.8 million primarily related to incentive compensation as a result of the improved operating results in 2017 as compared to the same period in 2016, (b) losses on foreign currency translation amounts in the amount of \$0.1 million related to our Australian and European operations, and (c) legal and professional fees of \$0.2 million.

Valuation and Appraisal

Selling, general and administrative expenses in the valuation and appraisal segment were \$2.1 million during each of the three months ended June 30, 2017 and 2016.

Principal Investments - United Online

Selling, general and administrative expenses in the principal investments - United Online segment of \$4.6 million during the three months ended June 30, 2017 were the result of the acquisition of UOL on July 1, 2016. These expenses include \$1.3 million of technology and development expenses, \$0.3 million of sales and marketing expenses, \$1.6 million of general and administrative expenses and \$1.4 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 with generating advertising revenues include sales commissions and personnel-related expenses. General and administrative expenses consist of personnel-related expenses for management in the principal investments - United Online segment, facilities, internal customer support personnel and personnel associated with operating our corporate systems. Amortization of intangibles includes amortization expense related to customer lists, advertising relationships, domain names and internally developed software.

Corporate and Other

Selling, general and administrative expenses for corporate and other increased \$2.0 million, to \$5.1 million during the three months ended June 30, 2017 from \$3.1 million for the three months ended June 30, 2016. The increase was primarily due to an increase in (a) payroll and related expenses of \$1.1 million in 2017 as compared to the same period in 2016, (b) a fair value adjustment of \$6.3 million in connection with the mandatorily redeemable noncontrolling interests; (c) other general corporate expense of \$0.3 million; and (d) transactions costs of \$0.3 million incurred for professional fees that primarily related to the acquisitions of FBR and Dialectic during the second quarter of 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 three months ended June 30, 2017, we incurred a restructuring charge of \$6.2 million. There was no restructuring charge during the three months ended June 30, 2016. In June 2017, we implemented cost savings measures taking into account the planned synergies as a result of the acquisition of FBR which included a reduction in force for some of the corporate executives of FBR and a restructuring to integrate FBR's operations with our operations in the capital market's segment. These initiatives resulted in a restructuring charge of \$6.1 million in the second quarter of 2017. The restructuring charge included \$2.2 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of FBR and \$2.5 million of severance, accelerated vesting of stock awards to employees and \$1.4 million of lease loss accruals for the planned consolidation of office space related to operations in the capital markets segment. The restructuring charge in 2017 also included employee termination costs of \$0.1 million related to a reduction in personnel in the principal investments - United Online segment of our operations.

Other Income (Expense). Other income included interest income of \$0.2 million during the three months ended June 30, 2017 and less than \$0.1 million during the three months ended June 30, 2016. Interest expense was \$1.9 million during the three months ended June 30, 2017 as compared to \$0.3 million during the three months ended June 30, 2016. The increase in interest expense during the three months ended June 30, 2017 was primarily due to (a) interest expense of \$0.2 million incurred on the acquisition consideration payable related to our acquisition of UOL on July 1, 2016 as a result of the Quadre Litigation; (b) an increase in interest expense of \$0.4 million incurred on borrowing under our asset based credit facility for retail liquidation engagements, and (c) interest expense of \$1.0 million incurred in 2017 from the issuance of senior notes due in 2021 and 2027.

Income (Loss) Before Income Taxes. Income before income taxes increased \$0.9 million to \$0.8 million during the three months ended June 30, 2017 from a loss before income taxes of \$0.1 million during the three months ended June 30, 2016. The increase in income before income taxes was primarily due to an increase in operating income of (a) \$5.6 million in our auction and liquidation segment, (b) \$0.2 million in our valuation and appraisal segment, and (c) \$5.1 million of income generated from our principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, and by (a) a decrease in operating income of \$4.3 million in our capital markets segment; (b) an increase in corporate overhead of \$4.2 million; and (c) an increase in net interest expense of \$1.5 million.

Benefit for Income Taxes. Benefit for taxes was \$2.5 million during the three months ended June 30, 2017 compared to \$0.1 million during the three months ended June 30, 2016. The benefit for income taxes during the three months ended June 30, 2017 included 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. The effective income tax rate was a benefit of 312.1% for the three months ended June 30, 2017 as compared to 70.7% for the three months ended June 30, 2016.

Net Income Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC, in which we have a 50% membership interest, that we do not own. The net income attributable to noncontrolling interests was \$0.1 million during the three months ended June 30, 2017 and 2016.

Net Income (Loss) Attributable to the Company. Net income attributable to the Company for the three months ended June 30, 2017 was \$3.3 million, an increase of \$3.4 million, from net loss attributable to the Company of \$0.1 million for the three months ended June 30, 2016. The increase in net income during the three months ended June 30, 2017 as compared to the same period in 2016 was primarily due to (a) an increase in operating income in the auction and liquidation segment; (b) operating income from the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016 as discussed above; and (c) the impact of the benefit from income taxes as discussed above.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Condensed Consolidated Statements of Operations
(Dollars in thousands)

	Six Months June 30, 2017		Six Months June 30, 2016	
	Amount	%	Amount	%
Revenues:				
Services and fees	\$ 117,213	98.0%	\$ 40,205	100.0%
Interest income - Securities lending	2,218	1.9%	—	0.0%
Sale of goods	142	0.1%	2	0.0%
Total revenues	<u>119,573</u>	<u>100.0%</u>	<u>40,207</u>	<u>100.0%</u>
Operating expenses:				
Direct cost of services	36,086	30.2%	12,243	30.4%
Cost of goods sold	189	0.2%	2	0.0%
Selling, general and administrative expenses	61,874	51.7%	26,117	65.0%
Restructuring costs	6,588	5.5%	—	0.0%
Interest expense - Securities lending	1,565	1.3%	—	0.0%
Total operating expenses	<u>106,302</u>	<u>88.9%</u>	<u>38,362</u>	<u>95.4%</u>
Operating income	<u>13,271</u>	<u>11.1%</u>	<u>1,845</u>	<u>4.6%</u>
Other income (expense):				
Interest income	282	0.2%	6	0.0%
Interest expense	(2,685)	(2.2%)	(407)	(1.0%)
Income before income taxes	10,868	9.1%	1,444	3.6%
Benefit (provision) for income taxes	6,396	5.3%	(101)	(0.3%)
Net income	17,264	14.4%	1,343	3.3%
Net (loss) income attributable to noncontrolling interests	(37)	0.0%	1,196	2.9%
Net income attributable to B. Riley Financial, Inc.	<u>\$ 17,301</u>	<u>14.5%</u>	<u>\$ 147</u>	<u>0.4%</u>

Revenues

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

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016		Change	
	Amount	%	Amount	%	Amount	%
Revenues - Services and fees:						
Capital Markets segment	\$ 39,399	32.9%	\$ 12,736	31.7%	\$ 26,663	209.4%
Auction and Liquidation segment	35,803	29.9%	12,300	30.6%	23,503	191.1%
Valuation and Appraisal segment	15,756	13.2%	15,169	37.7%	587	3.9%
Principal Investments - United Online segment	26,255	22.0%	—	n/m	26,255	n/m
Subtotal	<u>117,213</u>	<u>98.0%</u>	<u>40,205</u>	<u>100.0%</u>	<u>77,008</u>	<u>191.5%</u>
Revenues - Sale of goods:						
Auction and Liquidation	—	n/m	2	n/m	(2)	n/m
Principal Investments - United Online segment	142	0.1%	—	n/m	142	n/m
Subtotal	<u>142</u>	<u>0.1%</u>	<u>2</u>	<u>0.0%</u>	<u>140</u>	<u>n/m</u>
Interest income - Securities lending						
Capital Markets segment	2,218	1.9%	—	n/m	2,218	n/m
Total revenues	<u>\$ 119,573</u>	<u>100.0%</u>	<u>\$ 40,207</u>	<u>100.0%</u>	<u>\$ 79,366</u>	<u>197.4%</u>

n/m - Not applicable or not meaningful.

Total revenues increased \$79.4 million to \$119.6 million during the six months ended June 30, 2017 from \$40.2 million during the six months ended June 30, 2016. The increase in revenues during the six months ended June 30, 2017 was primarily due to an increase in revenues from services and fees of \$77.0 million, an increase in revenues from interest income – securities lending of \$2.2 and an increase in revenues from the sale of goods of \$0.1 million. The increase in revenues from services and fees of \$77.0 million in 2017 was primarily due to an increase in revenues of (a) \$26.7 million in the capital markets segment, (b) \$23.5 million in the auction and liquidation segment, (c) \$0.6 million in the valuation and appraisal segment, and (d) \$26.3 million in the principal investments - United Online segment from the acquisition of UOL on July 1, 2016. The increase in \$2.2 million of interest income – securities lending was as a result of the acquisition of FBR. The increase in revenues from sale of goods of \$0.1 million was primarily due to sale of certain products in the principal investments - United Online segment.

Revenues from services and fees in the capital markets segment increased \$26.7 million, to \$39.4 million during the six months ended June 30, 2017 from \$12.7 million during the six months ended June 30, 2016. The increase in revenues was primarily due to an increase in revenues of \$16.5 million from investment banking fees, \$7.7 million from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services and \$2.5 million from trading income. The increase in revenues from investment banking fees was primarily due an increase of \$6.2 million from the acquisition of FBR on June 1, 2017 and \$10.3 million due 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. The increase in revenues from commissions, fees and other income primarily earned from research, sales and trading, and wealth management services was primarily due to an increase in fees and commissions earned from research, sales and trading and incentive management fees earned from our various funds we manage which included \$2.5 million of revenues from the acquisition of FBR on June 1, 2017. The increase in revenues from trading income in 2017 was primarily due to an increase in income we earned from trading activities in our propriety trading account.

Revenues from services and fees in the auction and liquidation solutions increased \$23.5 million, to \$35.8 million during the six months ended June 30, 2017 from \$12.3 million during the six months ended June 30, 2016. The increase in revenues of \$23.5 million was primarily due to an increase in revenues of \$25.8 million from services and fees from retail liquidation engagements, offset by a decrease in revenues of \$2.3 million from services and fees in our wholesale and industrial auction division. The increase in revenues from services and fees from retail liquidation engagements was primarily due to an increase in the number of fee and commission based retail liquidation engagements for store closings and going-out-of-business sales in 2017 as compared to the same period in 2016. 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 \$0.6 million, or 3.9%, to \$15.8 million during the six months ended June 30, 2017 from \$15.2 million during the six months ended June 30, 2016. The increase in revenues was primarily due to increases of (a) \$0.2 million related to appraisal engagements where we perform valuations for the monitoring of collateral for financial institutions, lenders, and private equity investors; (b) \$0.2 million related to appraisal engagements where we perform valuations of machinery and equipment, and (c) \$0.2 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 of \$26.3 million during the six months ended June 30, 2017 were the result of the acquisition of UOL on July 1, 2016. These revenues include \$20.5 million in services and fees primarily from customer paid accounts related to our Internet access and related subscription services and \$5.8 million in advertising revenues from Internet display advertising and search related to our email and Internet access services. Over the past several years revenues from paid subscription services have declined year over year as a result of a decline in the number of paid subscribers for our services. Management believes the decline in paid subscriber accounts is primarily attributable to the industry trends of consumers switching from dial-up Internet access to high speed Internet access such as cable and DSL. Management expects revenues in the principal investments - United Online segment to continue to decline year over year.

Operating Expenses

Direct Cost of Services. Direct cost of services and direct cost of services measured as a percentage of revenues – services and fees by segment during the six months ended June 30, 2017 and 2016 are as follows:

	Six Months Ended June 30, 2017				Six Months Ended June 30, 2016			
	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Total	Auction and Liquidation Segment	Valuation and Appraisal Segment	Principal Investments - United Online Segment	Total
Revenues - Services and fees	\$ 35,803	\$ 15,756	\$ 26,255		\$ 12,300	\$ 15,169	\$ —	
Direct cost of services	22,097	7,253	6,736	\$ 36,086	5,505	6,738	—	\$ 12,243
Gross margin on services and fees	\$ 13,706	\$ 8,503	\$ 19,519		\$ 6,795	\$ 8,431	\$ —	
Gross margin percentage	38.3%	54.0%	74.3%		55.2%	55.6%	n/m	

n/m - Not applicable or not meaningful.

Total direct costs increased \$23.9 million, to \$36.1 million during the six months ended June 30, 2017 from \$12.2 million during the six months ended June 30, 2016. Direct costs of services increased by (a) \$16.6 million in the auction and liquidation segment, (b) \$0.6 million in the valuation and appraisal segment, and (c) \$6.7 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 an increase in the number of fee and commission type engagements in 2017 compared to the same period in 2016. The increase in direct costs of services in the valuation and appraisal segment was primarily due to an increase in payroll and related expenses due to an increase headcount 2017 as compared to the same period in 2016.

Gross margin in the auction and liquidation segment for services and fees decreased to 38.3% of revenues during the six months ended June 30, 2017, as compared to 55.2% of revenues during the six months ended June 30, 2016. Although the gross margin percentage decreased during the six months ended June 30, 2017 as compared to the same period in 2016, primarily due to a change in the mix of fee and commission type engagements, the overall gross margin in the auction and liquidation segment increased by \$6.9 million, from \$6.8 million to \$13.7 million. The increase in gross margin on services and fees was primarily due to an increase in the number of fee and commission type retail liquidation engagements during the second quarter of 2017 as compared to the same period in 2016.

Gross margin in the valuation and appraisal segment for services and fees decreased to 54.0% of revenues during the six months ended June 30, 2017, as compared to 55.6% of revenues during the six months ended June 30, 2016. The decrease in gross margin is primarily due to an increase in payroll and related expenses during the six months ended June 30, 2017 as compared to same period in 2016.

Selling, General and Administrative Expenses. Selling, general and administrative expenses during the six months ended June, 2017 and 2016 were comprised of the following:

Selling, General and Administrative Expenses

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016		Change	
	Amount	%	Amount	%	Amount	%
Capital Markets segment	\$ 34,329	55.5%	\$ 13,887	53.2%	\$ 20,442	147.2%
Auction and Liquidation segment	4,609	7.5%	2,880	11.0%	1,729	60.0%
Valuation and Appraisal segment	4,229	6.8%	4,296	16.4%	(67)	(1.6%)
Principal Investments - United Online segment	9,713	15.7%	—	n/m	9,713	n/m
Corporate and Other segment	8,994	14.5%	5,054	19.4%	3,940	78.0%
Total selling, general & administrative expenses	\$ 61,874	100.0%	\$ 26,117	100.0%	\$ 35,757	136.9%

Total selling, general and administrative expenses increased \$35.8 million, to \$61.9 million during the six months ended June 30, 2017 from \$26.1 million for the six months ended June 30, 2016. The increase was primarily due to an increase in selling, general and administrative expenses of (a) \$20.4 million in the capital markets segment, (b) \$1.7 million in the auction and liquidation segment, (c) \$9.7 million in the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, and (d) \$3.9 million in corporate and other, offset by \$0.1 million decrease in the valuation and appraisal segment.

Capital Markets

Selling, general and administrative expenses in the capital markets segment increased by \$20.4 million, or 147.2% to \$34.3 million during the six months ended June 30, 2017 from \$13.9 million during the six months ended June 30, 2016. The increase in expenses was primarily due to (a) an increase in operating costs of \$12.6 million related to the acquisition of FBR on June 1, 2016; (b) an increase in payroll and related expenses of \$7.1 million, primarily due to an increase in incentive compensation as a result of the increase in revenues from investment banking fees in 2017 as compared to the same period in 2016 discussed above, and (c) an increase in other general and administrative expenses of \$0.7 million.

Auction and Liquidation

Selling, general and administrative expenses in the auction and liquidation segment increased \$1.7 million, or 60.0%, to \$4.6 million during the six months ended June 30, 2017 from \$2.9 million for the six months ended June 30, 2016. The increase in expenses was primarily due to an increase in (a) payroll and related expenses in the amount of \$0.8 million primarily related to incentive compensation as a result of the improved operating results in 2017 as compared to the same period in 2016, (b) losses on foreign currency translation amounts in the amount of \$0.3 million related to our Australian and European operations, (c) legal and professional fees of \$0.3 million, and (d) other general and administrative expenses of \$0.3 million.

Valuation and Appraisal

Selling, general and administrative expenses in the valuation and appraisal segment decreased \$0.1 million, or 1.6% to \$4.2 million during the six months ended June 30, 2017 from \$4.3 million for six month ended June 30, 2016. The decrease in expenses was primarily due to a decrease in other general and administrative 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 of \$9.7 million during the six months ended June 30, 2017 were the result of the acquisition of UOL on July 1, 2016. These expenses include \$2.6 million of technology and development expenses, \$0.6 million of sales and marketing expenses, \$3.7 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 and personnel associated with operating our corporate systems. 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 \$3.9 million, to \$9.0 million during the six months ended June 30, 2017 from \$5.1 million for the six months ended June 30 2016. The increase was primarily due to an increase in (a) payroll and related expenses of \$1.9 million in 2017 as compared to the same period in 2016, (b) a fair value adjustment of \$6.3 million in connection with the mandatorily redeemable noncontrolling interests; (c) transactions costs of \$1.2 million incurred for professional fees that primarily related to the acquisition of FBR and Dialectic during the second quarter of 2017; and (d) other general corporate expenses of \$0.5 million. 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 six months ended June 30 2017, we incurred a restructuring charge of \$6.6 million. There was no restructuring charge during the six months ended June 30, 2016. In June 2017, we implemented costs savings measures taking into account the planned synergies as a result of the acquisition of FBR which included a reduction in force for some of the corporate executives of FBR and a restructuring to integrate FBR's operations with our operations in the capital market's segment. These initiatives resulted in a restructuring charge of \$6.1 million in the second quarter of 2017. The restructuring charge included \$2.2 million related to severance and accelerated vesting of restricted stock awards to former corporate executives of FBR and \$2.5 million of severance, accelerated vesting of stock awards to employees and \$1.4 million of lease loss accruals for the planned consolidation of office space related to operations in the capital markets segment. The restructuring charge in 2017 also included employee termination costs of \$0.5 related to a reduction in personnel in the principal investments – United Online segment of our operations.

Other Income (Expense). Other income (expense) included interest income of \$0.3 million during the six months ended June 30, 2017 and less than \$0.1 million during the six months ended June 30, 2016. Interest expense was \$2.7 million during the six months ended June 30, 2017 as compared to \$0.4 million during the six months ended June 30, 2016. The increase in interest expense during the six months ended June 30, 2017 was primarily due to (a) interest expense of \$0.4 million incurred on the acquisition consideration payable related to our acquisition of UOL on July 1, 2016 as a result of the Quadre Litigation; (b) an increase in interest expense of \$0.4 million incurred on borrowing under our asset based credit facility for retail liquidation engagements; and (c) interest expense of \$1.6 million incurred in 2017 from the issuance of senior notes.

Income Before Income Taxes. Income before income taxes increased \$9.4 million to \$10.9 million during the six months ended June 30, 2017 from \$1.4 million during the six months ended June 30, 2016. The increase in income before income taxes was primarily due to an increase in operating income of (a) \$9.3 million of income generated from our principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016, (b) \$5.2 million in our auction and liquidations segment; (c) \$3.0 million in our capital markets segment, and (d) \$0.1 million in our valuation and appraisal segment, offset by (a) an increase in corporate overhead of \$6.1 million and an increase in net interest expense of \$2.1 million.

Benefit for Income Taxes. Benefit for taxes was \$6.4 million during the six months ended June 30, 2017 compared to provision for taxes of \$0.1 million during the six months ended June 30, 2016. The benefit for income taxes during the six months ended June 30, 2017 included 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 9 in the condensed consolidated financial statements. The tax provision during the six months ended June 30, 2017 also 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. The effective income tax rate was a benefit of 58.9% for the six months ended June 30, 2017 as compared to 7.0% for the six months ended June 30, 2016.

Net Income Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interests represents the proportionate share of net income generated by Great American Global Partners, LLC, in which we have a 50% membership interest, that we do not own. The net loss attributable to noncontrolling interests was less than \$0.1 million during the six months ended June 30, 2017 compared to net income attributable to noncontrolling interests of \$1.2 million during the six months ended June 30, 2016.

Net Income Attributable to the Company. Net income attributable to the Company for the six months ended June 30, 2017 was \$17.3 million, an increase of \$17.2 million, from \$0.1 million for the six months ended June 30, 2016. The increase in net income during the six months ended June 30, 2017 as compared to the same period in 2016 was primarily due to (a) operating income from the principal investments - United Online segment as a result of the acquisition of UOL on July 1, 2016 as discussed above, (b) an increase in operating income in the auction and liquidation segment; (c) an increase in operating income in the capital markets segment; and (d) the impact of the benefit from income taxes as discussed above.

Liquidity and Capital Resources

Our operations are funded through a combination of existing cash on hand, cash generated from operations, proceeds from the issuance of common stock, and borrowings under our senior notes payable, credit facility and special purposes financing arrangements. On May 10, 2016, we completed a secondary offering of 2,420,980 shares of common stock at a price to the public of \$9.50 per share. The net proceeds from the offering were \$22.8 million after deducting underwriting commissions and other offering expenses. On November 2, 2016, the Company issued \$28.8 million of Senior Notes due in 2021 (the "2021 Notes"), interest payable quarterly at 7.5% commencing January 31, 2017. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, we received net proceeds of \$27.7 million (after underwriting commissions and fees of \$1.1 million). On May 31, 2017, we issued \$60.4 million of Senior Notes due in 2027 (the "2027 Notes"), interest payable quarterly at 7.5% commencing July 31, 2017. The 2027 Notes are unsecured and due and payable in full on July 31, 2027. In connection with the issuance of the 2027 Notes, we received net proceeds of \$58.2 million (after underwriting commissions and fees of \$2.1 million). During the six months ended June 30, 2017 and year ended December 31, 2016 we generated net income of \$17.3 million and \$21.5 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 June 30, 2017, we had \$104.7 million of unrestricted cash, \$5.6 million of restricted cash, net investments in securities and other investments of \$74.7 million, and \$106.3 million of borrowings outstanding. The borrowings outstanding of \$106.3 million at June 30, 2017 included (a) \$20.2 million of borrowings under our asset based credit facility for retail liquidation engagements, (b) \$27.8 million of borrowings from the issuance of the 2021 Notes, and (c) \$58.3 million of borrowings from the issuance of the 2027 Notes. We believe that our current cash and cash equivalents, securities and other investments owned, funds available under our asset based credit facility, UOL line of credit 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. During the six months ended June 30, 2017 and year ended December 31, 2016, we paid cash dividends of \$8.1 million and \$5.3 million, respectively, on our common stock. 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.

Cash Flow Summary

	Six Months Ended June 30,	
	2017	2016
	(Dollars in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (82,820)	\$ 10,315
Investing activities	7,355	(12,084)
Financing activities	65,751	19,796
Effect of foreign currency on cash	2,279	84
Net (decrease) increase in cash and cash equivalents	<u>\$ (7,435)</u>	<u>\$ 18,111</u>

Cash used in operating activities was \$82.8 million for the six months ended June 30, 2017, an increase of \$93.1 million, from cash provided by operating activities of \$10.3 million for the six months ended June 30, 2016. Cash used in operating activities for the six months ended June 30, 2017 includes net income of \$17.3 million adjusted for noncash items and changes in operating assets and liabilities. The increase in cash used in operating activities of \$93.1 million was primarily due to (a) a decrease in non-cash charges and other items of \$12.8 million, which included recovery of key man life insurance of \$(6.0) million, depreciation and amortization of \$4.3 million, share-based compensation \$3.9 million, income allocated and fair value adjustment for mandatorily redeemable noncontrolling interests of \$7.3 million, impairment of leaseholds lease loss accrual and loss on disposal of fixed assets of \$1.4 million and deferred income taxes of \$(23.6) million, and (b) changes in operating assets and liabilities that resulted in a decrease of \$87.3 million in cash flows from operations during the six months ended June 30, 2017, offset by an increase in net income of \$15.9 million to \$17.3 million during the six months ended June 30, 2017, from \$1.3 million during the comparable period in 2016.

Cash provided by investing activities was \$7.4 million during the six months ended June 30, 2017 compared to cash used in investing activities of \$12.1 million for the six months ended June 30, 2016. During the six months ended June 30, 2017, cash provided by investing activities consisted of (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 of \$0.6 million from the sale of intangible assets, offset by (a) use of \$10.4 million to pay off acquisition consideration payable, (b) increase in restricted cash of \$2.4 million and (c) use of \$2.1 million for the acquisition of other businesses. During the six months ended June 30, 2016, cash used in investing activities was primarily comprised of an increase in restricted cash and the purchase of property and equipment.

Cash provided by financing activities was \$65.8 million during the six months ended June 30, 2017 compared \$19.8 million during the six months ended June 30, 2016. During the six months ended June 30, 2017, cash provided by financing activities primarily consisted of (a) \$66.0 million proceeds from asset based credit facility and (b) \$57.8 million proceeds from issuance of senior notes, offset by (a) \$45.8 million used to repay the asset based credit facility, (b) \$8.4 million used to pay cash dividends, (c) \$1.6 million distributions to noncontrolling interests, (d) \$1.3 million used for the payment of contingent consideration, and (f) \$1.1 million used for the payment of employment taxes on vesting of restricted stock. During the six months ended June 30, 2016, cash provided by financing activities primarily consisted of (a) \$22.8 million of net proceeds from the issuance of common stock in May 2016, (b) \$1.3 million payment of contingent consideration in connection with the acquisition of MK Capital, (c) \$0.3 million used to repay a revolving line of credit, and (d) \$1.4 million of distributions to noncontrolling interest.

Contingent Consideration

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

Credit Agreements

On April 21, 2017, we amended the credit agreement (as amended, the “Credit Agreement”) governing our asset based credit facility with Wells Fargo Bank, National Association (“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. 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. The UK Credit Agreement is cross collateralized and integrated in certain respects with the credit agreement governing the credit facility. 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 June 30, 2017, there were borrowings in the amount of \$20.2 million outstanding under the credit facility. At December 31, 2016, there were no borrowings or letters of credits outstanding under the credit facility.

On April 13, 2017, UOL, in the capacity as borrower, entered into a credit agreement (the “UOL Credit Agreement”) with the Banc of California, N.A. in the capacity as agent and lender. The UOL Credit Agreement provides for a revolving credit facility under which UOL may borrow (or request the issuance of letters of credit) up to \$20.0 million which amount is reduced by \$1.5 million commencing on June 30, 2017 and on the last day of each calendar quarter thereafter. The final maturity date is April 13, 2020. The proceeds of the UOL Credit Agreement can be used (a) for working capital and general corporate purposes and/or (b) to pay dividends or permitted tax distributions to its parent company, subject to the terms of the UOL Credit Agreement. Borrowings under the UOL Credit Agreement will bear interest at a rate equal to (a) (i) the base rate (the greater of the federal funds rate plus one half of one percent (0.5%), or the prime rate) for U.S. dollar loans or (ii) at UOL’s option, the LIBOR Rate for Eurodollar loans, plus (b) the applicable margin rate, which ranges from two percent (2%) to three and one-half percent (3.5%) per annum, based upon UOL’s ratio of funded indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the preceding four (4) fiscal quarters. Interest payments are to be made each one, three or six months for Eurodollar loans, and quarterly for U.S. dollar loans.

UOL paid a commitment fee equal to 1.00% of the aggregate commitments upon the closing of the UOL Credit Agreement. The UOL Credit Agreement also provides for an unused line fee payable quarterly, in arrears, in an amount equal to: (a) 0.50% per annum times the amount of the unused revolving commitment that is less than or equal to the amount of the cash maintained in accounts with the agent (as depository bank); plus (b) 1.00% per annum times the amount of the unused revolving commitment that is greater than the amount of the cash maintained in accounts with the agent (as depository bank). Any amounts outstanding under the UOL Credit Facility are due at maturity. At June 30, 2017, there were no borrowings or letters of credits outstanding under this credit facility.

On November 2, 2016, we issued \$28.8 million of 2021 Notes, interest payable quarterly at 7.5% commencing January 31, 2017. The 2021 Notes are unsecured and due and payable in full on October 31, 2021. In connection with the issuance of the 2021 Notes, we received net proceeds of \$27.7 million (after underwriting commissions, fees and other issuance costs of \$1.1 million). The outstanding balance of the 2021 Notes was \$27.8 million (net of unamortized debt issue costs of \$0.9 million) and \$27.7 million (net of unamortized debt issue costs of \$1.0 million) at June 30, 2017 and December 31, 2016, respectively. In connection with the offering of 2021 Notes, certain members of our management and the Board of Directors purchased \$2.7 million or 9.5% of the 2021 Notes offered by us.

On May 31, 2017, we issued \$60.4 million of 2027 Notes, interest payable quarterly at 7.5% 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 2027 Notes, we received net proceeds of \$58.2 million (after underwriting commissions, fees and other issuance costs of \$2.1 million). The outstanding balance of the 2027 Notes was \$58.3 million (net of unamortized debt issue costs of \$2.1 million) at June 30, 2017.

On June 28, 2017, we entered into an At The Market Issuance Sales Agreement (the “Sales Agreement”) and filed a prospectus supplement, pursuant to which we may sell from time to time, at our option up to an aggregate of \$39.6 million of 2021 Notes or 2027 Notes. The Notes sold pursuant to the Sales Agreement will be issued pursuant to a prospectus dated March 29, 2017, as supplemented by a prospectus supplement dated June 28, 2017, in each case filed with the Securities and Exchange Commission pursuant to our effective Registration Statement on Form S-3 (File No. 333-216763), which was declared effective by the Securities and Exchange Commission on March 29, 2017. The Notes will be issued pursuant to the Indenture, dated as of November 2, 2016, as supplemented by a First Supplemental Indenture, dated as of November 2, 2016 and the Second Supplemental Indenture, dated as of May 31, 2017, each between us and U.S. Bank, National Association, as trustee. Future sales of the 2021 Notes and 2027 Notes pursuant to the Sales Agreement will depend on a variety of factors including, but not limited to, market conditions, the trading price of the notes and our capital needs. There can be no assurance we will be successful in consummating future sales based on prevailing market conditions or in the quantities or at the prices that we may deem appropriate.

Other Borrowings

In August 2016, we formed GA Retail Investments, L.P., a Delaware limited partnership, (the “Partnership”) which required us to contribute \$15.4 million. The Partnership borrowed \$80.0 million Australian dollars from a third party investor in connection with its formation and the \$80.0 million Australian dollars was exchanged for a 50% special limited partnership interest in the Partnership. The Partnership was formed to provide funding for the retail liquidation engagement we entered into to liquidate the Masters Home Improvement stores. The \$80.0 million Australian dollar participating note payable was non-interest bearing, shares in 50% of the all of the profits and losses of the Partnership and the principal amount was repaid in December 2016 upon the completion of the going-out-of-business sale of Masters Home Improvement stores as defined in the partnership agreement. At June 30, 2017 and December 31, 2016, \$0.4 million and \$10.0 million, respectively, was payable in accordance with the participating note payable share of profits and is included net income attributable to noncontrolling interests and amounts due to related parties and partners in the condensed consolidated financial statements.

Off-Balance Sheet Arrangements

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

Contractual Obligations

On May 17, 2017, we entered into the Wunderlich Merger Agreement to acquire Wunderlich. Pursuant to the Wunderlich Merger Agreement, customary closing conditions were satisfied and the acquisition was completed on July 3, 2017. We also entered into a Registration Rights Agreement with certain shareholders of Wunderlich on July 3, 2017. The Registration Rights Agreement provides the Wunderlich shareholder signatories 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 connection with the acquisition Wunderlich on July 3, 2017, the total consideration of \$73.0 million included \$36.7 million of cash used to retire existing Wunderlich preferred stock and debt and the issuance of approximately 1,974,812 shares of the Company’s common stock with an estimated fair value of \$31.4 million and 821,816 newly issued common stock warrants with an estimated fair value of \$4.9 million.

New Accounting Standards

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

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

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

In 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. 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 June 30, 2017 our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes to our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on Effectiveness of Controls

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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in litigation which arises in the normal course of our business operations. Except as set forth below, we believe that we are not currently a party to any proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations:

In January 2015, Great American Group, LLC (“Great American Group”) was served with a lawsuit that seeks to assert claims of breach of contract and other matters in connection with auction services provided to a debtor. The proceeding in the United States Bankruptcy Court for the District of Delaware (“Bankruptcy Court”) is pending in the bankruptcy case of the debtor and its affiliates (the “Debtor”). In the lawsuit, a former landlord of the Debtor generally alleges that Great American Group and a joint venture partner were responsible for contamination while performing services in connection with the auction of certain assets of the Debtor and is seeking approximately \$10,000 in damages. In January 2017, the parties filed a proposed scheduling order with the Bankruptcy Court. Discovery in the action is currently proceeding. Great American Group is vigorously defending this lawsuit. This lawsuit is ongoing, and the financial impact to the Company, if any, cannot be estimated.

On July 5, 2016, Quadre Investments LP (“Quadre”) filed a petition with the Delaware Court of Chancery (the “Court”) seeking a determination of fair value for 943,769 shares of common stock of UOL in connection with the acquisition of UOL by us. Such transaction gave rise to appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware. As a result, Quadre petitioned the Court to receive fair value as determined by the Court. On June 30, 2017, the parties settled the action and the petition was dismissed.

In May 2014, Waterford Township Police & Fire Retirement System et al. v. Regional Management Corp et al., filed a complaint in the Southern District of New York (the “Court”), against underwriters alleging violations under sections 11 and 12 of the Securities Act of 1933, as amended (the “Securities Act”). FBR Capital Markets & Co. (“FBRCM”), a broker-dealer subsidiary of ours, was a co-manager of 2 offerings. On January 30, 2017, the Court denied the plaintiffs’ motion to file a first amended complaint, which would have revived claims previously dismissed by the Court on March 30, 2016. On March 1, 2017, the plaintiffs filed a notice of appeal and the plaintiff’s opening brief was due on June 21, 2017. Defendant’s opposition motion is due by September 12, 2017. Regional Management continues to indemnify all of the underwriters, including FBRCM, pursuant to the operative underwriting agreement.

On January 5, 2017, the 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. 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. Briefing on the defendants’ motions to dismiss has been filed with the court.

In April 2017, two purported shareholders of FBR filed a putative class action against FBR and the members of its board of directors that challenged the disclosures made in connection with the merger of FBR with the Company, styled Michael Rubin v. FBR & Co., et al., Case No. 1:17-cv-00410-LMB-MSN and Kim v. FBR & Co., et al. Case No. 1:17-cv-004440LMB-IDD. The complaints alleged that the registration statement filed in connection with the Merger failed to disclose certain allegedly material information in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 14a-9 promulgated thereunder. On July 12, 2017, per stipulation, the complaints were dismissed - with prejudice as to the named plaintiffs only, without prejudice as to the class. We expect the plaintiffs to seek the payment of mootness fee in the near future.

In February 2017, certain former employees filed an arbitration claim with FINRA against Wunderlich Securities, Inc. (“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 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 claims are meritless and intends to vigorously defend the action. A hearing has been scheduled for March, 2018.

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 million plus unspecified punitive damages. Respondents believe the claims are meritless and intend to vigorously defend the action.

Item 1A. Risk Factors.

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors was included in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 10, 2017. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements and other information contained in this Quarterly Report on Form 10-Q. Any of the risks described in the Annual Report on Form 10-K for the year ended December 31, 2016 could materially affect our business, financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. There have been no material changes to the risk factors set forth in the Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On April 13, 2017, we entered into an Asset Purchase and Assignment Agreement with Dialectic Capital Management, L.P., Dialectic Capital, LLC and John Fichthorn (collectively "Dialectic"), pursuant to which Dialectic assigned and transferred the rights to manage certain hedge funds to us (the "Dialectic Acquisition"). In connection with Dialectic Acquisition, on April 13, 2017 we paid the Dialectic parties \$0.7 million in cash consideration and 158,484 shares of common stock which has a fair value of approximately \$2.0 million for total purchase consideration of \$2.7 million. The Dialectic Acquisition expands our assets under management in the capital markets segment and we believe such acquisition will allow us to benefit from planned synergies from the elimination of duplicate administrative functions. The issuance of shares of our common stock to the Dialectic parties was made in reliance on the private offering exemption of Section 4(a)(2) of the Securities Act based on the following factors: (i) the number of offerees or purchasers, as applicable, (ii) the absence of general solicitation, (iii) investment representations obtained from the Dialectic parties, including with respect to their status as accredited investors, (iv) the provision of appropriate disclosure, and (v) the placement of restrictive legends on the stock certificates reflecting such shares of common stock.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report are listed in the index to exhibits immediately preceding such exhibits, which index to exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements 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: August 8, 2017

By: /s/ PHILLIP J. AHN
Name: Phillip J. Ahn
Title: Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

Exhibit Index

Exhibit No.	Description
2.1(1)+	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 & Co., the registrant and BRC Merger Sub, LLC
2.2(2)+	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
4.1(3)	Base Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee
4.2(3)	First Supplemental Indenture, dated as of November 2, 2016, by and between the registrant and U.S. Bank National Association, as Trustee
4.3(4)	Second Supplemental Indenture, dated as of May 31, 2017, by and between the registrant and U.S. Bank National Association, as Trustee
4.4(4)	Form of 7.50% Senior Note due 2027
4.5(3)	Form of 7.50% Senior Note due 2021
10.1(5)	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.
10.2*	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.
10.3*	Unconditional Guaranty, dated as of April 13, 2017, by the registrant in favor of Banc of California, N.A.
10.4(6)	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
10.5(7)	Underwriting Agreement, dated as of May 23, 2017, by and among the registrant, FBR Capital Markets & Co. and B. Riley & Co. LLC as representatives of the several underwriters named therein
10.5(8)#	Employment Agreement, dated as of February 17, 2017, by and among B. Riley & Co., LLC, Richard J. Hendrix and the registrant
10.5(9)	At Market Issuance Sales Agreement, dated as of June 28, 2017, by and between the registrant and FBR Capital Markets & Co.
10.6(10)	Warrant Agreement, dated as of July 3, 2017, by and between the registrant and Continental Stock Transfer & Trust Company
10.7(10)#	Employment Agreement, dated as of May 17, 2017, by and among the registrant, Wunderlich Investment Company, Inc. and Gary K. Wunderlich, Jr.
10.8(10)	Registration Rights Agreement, dated as of July 3, 2017, by and among the registrant and the persons listed on the signature pages thereto
10.9*	Consulting Services Agreement, dated as of July 3, 2017, by and between Richard J. Hendrix and FBR Capital Markets & Co.
10.10*	Severance Agreement and General Release, dated as of July 3, 2017, by and among the registrant, Richard J. Hendrix, FBR Capital Markets & Co. and B. Riley & Co., LLC.
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
32.1*†	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*†	Certification required by 18 United States Code 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.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

† These exhibits are being “furnished” and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

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

Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the registrant’s Registration Statement on Form S-4/A (File No. 333-216763) filed with the SEC on May 1, 2017.

(2) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on May 18, 2017.

(3) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on November 2, 2016.

(4) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on May 31, 2017.

(5) Incorporated by reference to the registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 10, 2017.

(6) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on April 27, 2017.

(7) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on May 24, 2017.

(8) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on June 1, 2017.

(9) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on June 28, 2017.

(10) Incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on July 5, 2017.

SECURITY AND PLEDGE AGREEMENT

THIS SECURITY AND PLEDGE AGREEMENT (this “Agreement”) is entered into as of April 13, 2017, among UNITED ONLINE, INC., a Delaware corporation (the “Borrower”), the other parties identified as “Grantors” on the signature pages hereto and such other parties that may become Grantors hereunder after the date hereof (together with the Borrower, each individually a “Grantor”, and collectively, the “Grantors”) and BANC OF CALIFORNIA, N.A., in its capacity as administrative agent (in such capacity, the “Administrative Agent”) for the Secured Parties.

RECITALS

WHEREAS, pursuant to that certain Credit Agreement, dated as of the date hereof (as amended, modified, extended, restated, renewed, replaced, or supplemented from time to time, the “Credit Agreement”) among the Borrower, the Secured Guarantors, the Lenders party thereto and the Administrative Agent, the Lenders have agreed to make Loans and issue Letters of Credit upon the terms and subject to the conditions set forth therein; and

WHEREAS, this Agreement is required by the terms of the Credit Agreement.

NOW, THEREFORE, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

(a) Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement. With reference to this Agreement, unless otherwise specified herein: (i) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined, (ii) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms, (iii) the words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”, (iv) the word “will” shall be construed to have the same meaning and effect as the word “shall”, (v) any definition of, or reference to, any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document, as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (vi) any reference herein to any Person shall be construed to include such Person’s permitted successors and assigns, (vii) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (viii) all references herein to Sections, Exhibits and Schedules shall be construed to refer to Sections of, and Exhibits and Schedules to, this Agreement, (ix) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, (x) the term “documents” includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form, (xi) in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including”, (xii) Section headings herein are included for convenience of reference only and shall not affect the interpretation of this Agreement and (xiii) where the context requires, terms relating to the Collateral or any part thereof, when used in relation to a Grantor, shall refer to such Grantor’s Collateral or the relevant part thereof.

(b) The following terms shall have the meanings set forth in the UCC (defined below): Accession, Account, Account Debtor, Adverse Claim, As-Extracted Collateral, Certificated Security, Chattel Paper, Commercial Tort Claim, Consumer Goods, Deposit Account, Document, Electronic Chattel Paper, Equipment, Farm Products, Financial Asset, Fixtures, General Intangible, Goods, Instrument, Inventory, Investment Company Security, Investment Property, Letter-of-Credit Right, Manufactured Home, Payment Intangible, Proceeds, Securities Account, Securities Intermediary, Security, Software, Supporting Obligation and Tangible Chattel Paper.

(c) In addition, the following terms shall have the meanings set forth below:

“Assignment of Claims Act” means the Assignment of Claims Act of 1940 (41 U.S.C. Section 15, 31 U.S.C. Section 3737, and 31 U.S.C. Section 3727), including all amendments thereto and regulations promulgated thereunder.

“Collateral” has the meaning provided in Section 2 hereof.

“Control” means the manner in which “control” is achieved under the UCC with respect to any Collateral for which the UCC specifies a method of achieving “control”.

“Copyright License” means any agreement now or hereafter in existence, providing for the grant by, or to, any rights (including, without limitation, the grant of rights for a party to be designated as an author or owner and/or to enforce, defend, use, display, copy, manufacture, distribute, exploit and sell, make derivative works, and require joinder in suit and/or receive assistance from another party) covered in whole or in part by a Copyright.

“Copyrights” means, collectively, all of the following of any Grantor: (i) all copyrights, works protectable by copyright, copyright registrations and copyright applications anywhere in the world, (ii) all derivative works, counterparts, extensions and renewals of any of the foregoing, (iii) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing or with respect to any of the foregoing, including, without limitation, damages or payments for past, present and future infringements, violations or misappropriations of any of the foregoing, (iv) the right to sue for past, present and future infringements, violations or misappropriations of any of the foregoing and (v) all rights corresponding to any of the foregoing throughout the world.

“Government Contract” means a contract between any Grantor and an agency, department or instrumentality of the United States or any state, municipal or local Governmental Authority located in the United States or all obligations of any such Governmental Authority arising under any Account now or hereafter owing by any such Governmental Authority, as Account Debtor, to any Grantor.

“Intellectual Property” means, collectively, all of the following of any Grantor: (i) all systems software and applications software (including source code and object code), all documentation for such software, including, without limitation, user manuals, flowcharts, functional specifications, operations manuals, and all formulas, processes, ideas and know-how embodied in any of the foregoing, (ii) concepts, discoveries, improvements and ideas, know-how, technology, reports, design information, trade secrets, practices, specifications, test procedures, maintenance manuals, research and development, inventions (whether or not patentable), blueprints, drawings, data, customer lists, catalogs, and all physical embodiments of any of the foregoing, (iii) Patents and Patent Licenses, Copyrights and Copyright Licenses, Trademarks and Trademark Licenses and (iv) other agreements with respect to any rights in any of the items described in the foregoing clauses (i), (ii), and (iii).

“Issuer” means the issuer of any Pledged Equity.

“Patent License” means any agreement, now or hereafter in existence, providing for the grant by, or to, any Grantor of any rights (including, without limitation, the right for a party to be designated as an owner and/or to enforce, defend, make, have made, make improvements, manufacture, use, sell, import, export, and require joinder in suit and/or receive assistance from another party) covered in whole or in part by a Patent.

“Patents” means collectively, all of the following of any Grantor: (i) all patents, all inventions and patent applications anywhere in the world, (ii) all improvements, counterparts, reissues, divisional, re-examinations, extensions, continuations (in whole or in part) and renewals of any of the foregoing and improvements thereon, (iii) all income, royalties, damages or payments now or hereafter due and/or payable under any of the foregoing or with respect to any of the foregoing, including, without limitation, damages or payments for past, present or future infringements, violations or misappropriations of any of the foregoing, (iv) the right to sue for past, present and future infringements, violations or misappropriations of any of the foregoing and (v) all rights corresponding to any of the foregoing throughout the world.

“Pledged Equity” means, with respect to each Grantor, (i) 100% of the issued and outstanding Equity Interests of each Domestic Subsidiary of such Grantor that is directly owned by such Grantor and (ii) 65% (or such greater percentage that, due to a change in an applicable Law after the date hereof, that could not reasonably be expected to cause the undistributed earnings of such Foreign Subsidiary, as determined for United States federal income tax purposes, to be treated as a deemed dividend to such Foreign Subsidiary’s United States parent) of the issued and outstanding Equity Interests entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) and 100% of the issued and outstanding Equity Interests not entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) in each Foreign Subsidiary of such Grantor that is directly owned by such Grantor, including the Equity Interests of the Subsidiaries owned by such Grantor as set forth on Schedule 5.21(f) to the Credit Agreement (as updated from time to time in accordance with the Credit Agreement), in each case together with the certificates (or other agreements or instruments), if any, representing such shares, and all options and other rights, contractual or otherwise, with respect thereto, including, but not limited to, the following:

(1) all Equity Interests representing a dividend thereon, or representing a distribution or return of capital upon or in respect thereof, or resulting from a stock split, revision, reclassification or other exchange therefor, and any subscriptions, warrants, rights or options issued to the holder thereof, or otherwise in respect thereof; and

(2) in the event of any consolidation or merger involving any Issuer and in which such Issuer is not the surviving Person, all shares of each class of the Equity Interests of the successor Person formed by or resulting from such consolidation or merger, to the extent that such successor Person is a direct Subsidiary of a Grantor.

“Trademark License” means any agreement, now or hereafter in existence, providing for the grant by, or to, any Grantor of any rights in (including, without limitation, the right for a party to be designated as an owner and/or to enforce, defend, use, mark, police, and require joinder in suit and/or receive assistance from another party) covered in whole, or in part, by a Trademark.

“Trademarks” means, collectively, all of the following of any Grantor: (i) all trademarks, trade names, corporate names, company names, business names, fictitious business names, internet domain names, trade styles, service marks, logos, other business identifiers, whether registered or unregistered, all registrations and recordings thereof, and all applications in connection therewith (other than each United States application to register any trademark or service mark prior to the filing under applicable Law of a verified statement of use for such trademark or service mark) anywhere in the world, (ii) all counterparts, extensions and renewals of any of the foregoing, (iii) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing or with respect to any of the foregoing, including, without limitation, damages or payments for past, present or future infringements, violations, dilutions or misappropriations of any of the foregoing, (iv) the right to sue for past, present or future infringements, violations, dilutions or misappropriations of any of the foregoing and (v) all rights corresponding to any of the foregoing (including the goodwill) throughout the world.

“Vehicles” means all cars, trucks, trailers, construction and earth moving equipment and other vehicles covered by a certificate of title under the laws of any state, all tires and all other appurtenances to any of the foregoing.

“Vessel” means any watercraft or other artificial contrivance used, or capable of being used, as a means of transportation on water (including, without limitation, those whose primary purpose is the maritime transportation of cargo or which are otherwise engaged, used or useful in any business activities of the Grantors) which are owned by and registered (or to be owned and registered) in the name of any of the Grantors, including, without limitation, any Vessel leased or otherwise registered in the foregoing parties’ names, pursuant to a lease or other operating agreement constituting a capital lease obligation, in each case together with all related spares, equipment and any additional improvements, vessel owned, bareboat chartered or operated by a Grantor other than Vessels owned by an entity other than a Grantor and which are managed under Vessel management agreements.

“UCC” means the Uniform Commercial Code as in effect from time to time in the state of California except as such term may be used in connection with the perfection of the Collateral and then the applicable jurisdiction with respect to such affected Collateral shall apply.

“USPTO” means the United States Patent and Trademark Office.

“Work” means any work that is subject to copyright protection pursuant to Title 17 of the United States Code.

2. Grant of Security Interest in the Collateral . To secure the prompt payment and performance in full when due, whether by lapse of time, acceleration, mandatory prepayment or otherwise, of the Secured Obligations, each Grantor hereby grants to the Administrative Agent, for the benefit of the Secured Parties, a continuing security interest in, and a right to set off against, any and all right, title and interest of such Grantor in and to all of the following, whether now owned or existing or owned, acquired, or arising hereafter (collectively, the “Collateral”): (a) all Accounts; (b) all cash, currency and Cash Equivalents; (c) all Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper); (d) those certain Commercial Tort Claims set forth on Schedule 5.21(e) to the Credit Agreement (as updated from time to time in accordance with the Credit Agreement); (e) all Deposit Accounts; (f) all Documents; (g) all Equipment; (h) all Fixtures; (i) all General Intangibles; (j) all Goods; (k) all Instruments; (l) all Intellectual Property; (m) all Inventory; (n) all Investment Property; (o) all Letter-of-Credit Rights; (p) all Payment Intangibles; (q) all Pledged Equity; (r) all Securities Accounts; (s) all Software; (t) all Supporting Obligations; (u) all Vehicles; (v) all books and records pertaining to the Collateral; (w) all Accessions and all Proceeds and products of any and all of the foregoing and (x) all other personal property of any kind or type whatsoever now or hereafter owned by such Grantor or as to which such Grantor now or hereafter has the power to transfer interest therein.

Notwithstanding anything to the contrary contained herein, the security interests granted under this Agreement shall not extend to (a) Excluded Property, (b) any General Intangible, permit, lease, license, contract or other Instrument of a Grantor to the extent the grant of a security interest in such General Intangible, permit, lease, license, contract or other Instrument in the manner contemplated by this Agreement, under the terms thereof or under applicable Law, is prohibited and would result in the termination thereof or give the other parties thereto the right to terminate, accelerate or otherwise alter such Grantor's rights, titles and interests thereunder (including upon the giving of notice or the lapse of time or both) or (c) any United States intent-to-use trademark applications to the extent that, and solely during the period in which the grant of a security interest therein would impair the validity or enforceability of or render void or result in the cancellation of, any registration issued as a result of such intent-to-use trademark applications under applicable Law; provided that upon submission and acceptance by the USPTO of an amendment to allege pursuant to 15 U.S.C. Section 1060(a) or any successor provision, such intent-to-use trademark application shall be considered Collateral; provided, further that (i) any such limitation described in the foregoing clause (b) on the security interests granted hereunder shall only apply to the extent that any such prohibition or right to terminate or accelerate or alter the Grantor's rights could not be rendered ineffective pursuant to the UCC or any other applicable Law (including Debtor Relief Laws) or principles of equity and (ii) in the event of the termination or elimination of any such prohibition or right or the requirement for any consent contained in any applicable Law, General Intangible, permit, lease, license, contract or other Instrument, to the extent sufficient to permit any such item to become Collateral hereunder, or upon the granting of any such consent, or waiving or terminating any requirement for such consent, a security interest in such General Intangible, permit, lease, license, contract or other Instrument shall be automatically and simultaneously granted hereunder and shall be included as Collateral hereunder.

The Grantors and the Administrative Agent, on behalf of the Secured Parties, hereby acknowledge and agree that the security interest created hereby in the Collateral (a) constitutes continuing collateral security for all of the Secured Obligations, whether now existing or hereafter arising and (b) is not to be construed as an assignment of any Intellectual Property.

3. Representations and Warranties. Each Grantor hereby represents and warrants to the Administrative Agent, for the benefit of the Secured Parties, that until the Facility Termination Date:

(a) Ownership. Each Grantor is the legal and beneficial owner of its Collateral and has the right to pledge, sell, assign or transfer the same. There exists no Adverse Claim with respect to the Pledged Equity of such Grantor.

(b) Security Interest/Priority. This Agreement creates a valid security interest in favor of the Administrative Agent, for the benefit of the Secured Parties, in the Collateral of such Grantor and, when properly perfected by filing, shall constitute a valid and perfected, first priority security interest in such Collateral (including all uncertificated Pledged Equity consisting of partnership or limited liability company interests that do not constitute Securities), to the extent such security interest can be perfected by filing under the UCC, free and clear of all Liens except for Permitted Liens. No Grantor has authenticated any currently effective agreement authorizing any secured party thereunder to file a financing statement, except to perfect Permitted Liens. The taking possession by the Administrative Agent of the certificated securities (if any) evidencing the Pledged Equity and all other Instruments constituting Collateral will perfect and establish the first priority of the Administrative Agent's security interest in all the Pledged Equity evidenced by such certificated securities and such Instruments. With respect to any Collateral consisting of a Deposit Account, Securities Entitlement or held in a Securities Account, upon execution and delivery by the applicable Grantor, the applicable Securities Intermediary and the Administrative Agent of an agreement granting control to the Administrative Agent over such Collateral, the Administrative Agent shall have a valid and perfected, first priority security interest in such Collateral.

(c) Types of Collateral. None of the Collateral consists of, or is the Proceeds of, (i) As-Extracted Collateral, (ii) Consumer Goods, (iii) Farm Products, (iv) Manufactured Homes, (v) standing timber, (vi) an aircraft, airframe, aircraft engine or related property, (vii) an aircraft leasehold interest, (viii) a Vessel or (ix) any other interest in or to any of the foregoing.

(d) Accounts. (i) Each Account of the Grantors and the papers and documents relating thereto are genuine and in all material respects what they purport to be, (ii) each Account arises out of (A) a bona fide sale of goods sold and delivered by such Grantor (or is in the process of being delivered) or (B) services theretofore actually rendered by such Grantor to, the account debtor named therein, (iii) no Account of a Grantor is evidenced by any Instrument or Chattel Paper unless, subject to Section 5.21(c) of the Credit Agreement and Section 4(c)(i) of this Agreement, such Instrument or Chattel Paper, to the extent requested by the Administrative Agent, has been endorsed over and delivered to, or submitted to the control of, the Administrative Agent, (iv) no surety bond was required or given in connection with any Account of a Grantor or the contracts or purchase orders out of which they arose, (v) the right to receive payment under each Account may be assigned as a matter of law, and (vi) no Account Debtor has any defense, set-off, claim or counterclaim against any Grantor that can be asserted against the Administrative Agent, whether in any proceeding to enforce the Administrative Agent's rights in the Collateral otherwise, except defenses, setoffs, claims or counterclaims that are not, in the aggregate, material to the value of the Accounts, taken as a whole.

(e) Equipment and Inventory. With respect to any Equipment and/or Inventory of a Grantor, each such Grantor has exclusive possession and control of such Equipment and Inventory of such Grantor except for (i) Equipment leased by such Grantor as a lessee, (ii) Equipment or Inventory in transit with common carriers or (iii) Equipment and/or Inventory in the possession or control of a warehouseman, bailee or any agent or processor of such Grantor to the extent such Grantor has complied with Section 4(e). No Inventory of a Grantor is held by a Person other than a Grantor pursuant to consignment, sale or return, sale on approval or similar arrangement. Collateral consisting of Inventory is of good and merchantable quality, free from material defects. None of such Inventory is subject to any licensing, Patent, Trademark, trade name or Copyright with any Person that restricts any Grantor's ability to use, manufacture, lease, sell or otherwise dispose of such Inventory. The completion of the manufacturing process of such Inventory by a Person other than the applicable Grantor would be permitted under any contract to which such Grantor is a party or to which the Inventory is subject.

(f) Authorization of Pledged Equity. All Pledged Equity (i) is duly authorized and validly issued, (ii) is fully paid and, to the extent applicable, nonassessable and is not subject to the preemptive rights of any Person, (iii) is beneficially owned as of record by a Grantor and (iv) constitute all the issued and outstanding shares of all classes of the equity of such Issuer issued to such Grantor.

(g) No Other Equity Interests, Instruments, Etc. As of the Closing Date, (i) no Grantor owns any certificated Equity Interests in any Subsidiary that are required to be pledged and delivered to the Administrative Agent hereunder except as set forth on Schedule 5.21(f) to the Credit Agreement (as updated from time to time in accordance with the Credit Agreement), and (ii) no Grantor holds any Instruments, Documents or Tangible Chattel Paper required to be pledged and delivered to the Administrative Agent pursuant to Section 4(c)(i) of this Agreement other than as set forth on Schedule 5.21(c) to the Credit Agreement (as updated from time to time in accordance with the Credit Agreement). Subject to Section 5.21(c) of the Credit Agreement and Section 4(c)(i) of this Agreement, all such certificated securities, Instruments, Documents and Tangible Chattel Paper have been delivered to the Administrative Agent to the extent (A) requested by the Administrative Agent or (B) as required by the terms of this Agreement and the other Loan Documents.

(h) Partnership and Limited Liability Company Interests. Except as previously disclosed to the Administrative Agent, none of the Collateral consisting of an interest in a partnership or a limited liability company (i) is dealt in or traded on a securities exchange or in a securities market, (ii) by its terms expressly provides that it is a Security governed by Article 8 of the UCC, (iii) is an Investment Company Security, (iv) is held in a Securities Account or (v) constitutes a Security or a Financial Asset.

(i) Contracts; Agreements; Licenses. No Grantor has any Material Contracts, agreements or licenses which are non-assignable by their terms, or as a matter of law, or which prevent the granting of a security interest therein.

(j) Consents; Etc. No approval, consent, exemption, authorization or other action by, notice to, or filing with, any Governmental Authority or any other Person (including, without limitation, any stockholder, member or creditor of such Grantor), is necessary or required for (i) the grant by such Grantor of the security interest in the Collateral granted hereby or for the execution, delivery or performance of this Agreement by such Grantor, (ii) the perfection of such security interest (to the extent such security interest can be perfected by filing under the UCC, the granting of control (to the extent required under Section 4(c) hereof) or by filing an appropriate notice with the USPTO or the United States Copyright Office) or (iii) the exercise by the Administrative Agent or the Secured Parties of the rights and remedies provided for in this Agreement (including, without limitation, as against any Issuer), except for (A) the filing or recording of UCC financing statements or other filings under the Assignment of Claims Act, (B) the filing of appropriate notices with the USPTO and the United States Copyright Office, (C) obtaining control to perfect the Liens created by this Agreement (to the extent required under Section 4(c) hereof), (D) such actions as may be required by Laws affecting the offering and sale of securities, (E) such actions as may be required by applicable foreign Laws affecting the pledge of the Pledged Equity of Foreign Subsidiaries, (F) consents, authorizations, filings or other actions which have been obtained or made, and (G) as may be required with respect to Vehicles registered under a certificate of title, subject to Section 4(o) of this Agreement.

(k) Commercial Tort Claims. As of the Closing Date, no Grantor has any Commercial Tort Claims seeking damages in excess of \$250,000 other than as set forth on Schedule 5.21(e) to the Credit Agreement (as updated from time to time in accordance with the Credit Agreement).

(l) Copyrights, Patents and Trademarks.

(i) All Intellectual Property of such Grantor that is reasonably necessary for, or material to, the operation of such Grantor's business is valid, subsisting, unexpired, enforceable and has not been abandoned.

(ii) No holding, decision or judgment has been rendered by any Governmental Authority that would limit, cancel or question the validity of any Intellectual Property of any Grantor.

(iii) All applications pertaining to the Copyrights, Patents and Trademarks of each Grantor have been duly and properly filed, and all registrations or letters pertaining to such Copyrights, Patents and Trademarks have been duly and properly filed and issued.

(iv) No Grantor has made any assignment or agreement in conflict with the security interest in the Intellectual Property of any Grantor hereunder.

(v) Each Grantor and each of its Subsidiaries, own, or possess the right to use, all of the Intellectual Property that is reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person.

(vi) To the best knowledge of such Grantor, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed by such Grantor or any of its Subsidiaries infringes upon any rights held by any other Person.

(vii) No proceeding, claim or litigation regarding any of the foregoing is pending or, to the best knowledge of such Grantor, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

4. Covenants. Each Grantor covenants that until the Facility Termination Date, that such Grantor shall:

(a) Maintenance of Perfected Security Interest; Further Information.

(i) Maintain the security interest created by this Agreement as a first priority perfected security interest (subject only to Permitted Liens) and shall take commercially reasonable steps to defend such security interest against the claims and demands of all Persons whomsoever (other than the holders of Permitted Liens).

(ii) From time to time furnish to the Administrative Agent upon the Administrative Agent's reasonable request, statements and schedules further identifying and describing the assets and property of such Grantor and such other reports in connection therewith as the Administrative Agent may reasonably request, all in reasonable detail.

(b) Required Notifications. Each Grantor shall promptly notify the Administrative Agent, in writing, of: (i) any Lien (other than Permitted Liens) on any of the Collateral which would adversely affect the ability of the Administrative Agent to exercise any of its remedies hereunder and (ii) the occurrence of any other event which could reasonably be expected to have a material impairment on the aggregate value of the Collateral or on the security interests created hereby.

(c) Perfection through Possession and Control.

(i) If any amount in excess of \$250,000 payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Tangible Chattel Paper or Supporting Obligation, or if any property constituting Collateral with a value in excess of \$250,000 shall be stored or shipped subject to a Document, ensure that such Instrument, Tangible Chattel Paper, Supporting Obligation or Document is either in the possession of such Grantor at all times or, if requested by the Administrative Agent to perfect its security interest in such Collateral, is delivered to the Administrative Agent duly endorsed in a manner satisfactory to the Administrative Agent. Such Grantor shall ensure that any Collateral consisting of Tangible Chattel Paper with a value in excess of \$250,000 is marked with a legend acceptable to the Administrative Agent indicating the Administrative Agent's security interest in such Tangible Chattel Paper.

(ii) Deliver to the Administrative Agent promptly upon the receipt thereof by or on behalf of a Grantor, all certificates and instruments constituting Certificated Securities or Pledged Equity; provided, however, that notwithstanding anything to the contrary set forth herein, no Grantor shall be required to deliver the stock certificates representing the Pledged Equity of India Subsidiary. Prior to delivery to the Administrative Agent, all such certificates constituting Pledged Equity shall be held in trust by such Grantor for the benefit of the Administrative Agent pursuant hereto. All such certificates representing Pledged Equity shall be delivered in suitable form for transfer by delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank, substantially in the form provided in Exhibit A hereto or other form acceptable to the Administrative Agent.

(iii) If any Collateral shall consist of Deposit Accounts, Electronic Chattel Paper, Letter-of-Credit Rights, Securities Accounts or uncertificated Investment Property, execute and deliver (and, with respect to any Collateral consisting of a Securities Account or uncertificated Investment Property, in each case, with a value in excess of \$250,000 individually or in the aggregate, cause the Securities Intermediary or the Issuer, as applicable, with respect to such Investment Property to execute and deliver) to the Administrative Agent all control agreements, assignments, instruments or other documents as reasonably requested by the Administrative Agent for the purposes of obtaining and maintaining Control of such Collateral. If any Collateral shall consist of Deposit Accounts or Securities Accounts, comply with Section 6.14 of the Credit Agreement.

(d) Filing of Financing Statements, Notices, etc. Each Grantor shall execute and deliver to the Administrative Agent and/or file such agreements, assignments or instruments (including affidavits, notices, reaffirmations and amendments and restatements of existing documents, as the Administrative Agent may reasonably request) and do all such other things as the Administrative Agent may reasonably deem necessary or appropriate (i) to assure to the Administrative Agent its security interests hereunder, including (A) such instruments as the Administrative Agent may from time to time reasonably request in order to perfect and maintain the security interests granted hereunder in accordance with the UCC, including, without limitation, financing statements (including continuation statements), (B) with regard to Copyrights, a Notice of Grant of Security Interest in Copyrights substantially in the form of Exhibit B or other form acceptable to the Administrative Agent, (C) with regard to Patents, a Notice of Grant of Security Interest in Patents for filing with the USPTO substantially in the form of Exhibit C or other form acceptable to the Administrative Agent and (D) with regard to Trademarks, a Notice of Grant of Security Interest in Trademarks for filing with the USPTO substantially in the form of Exhibit D or other form acceptable to the Administrative Agent, (ii) to consummate the transactions contemplated hereby and (iii) to otherwise protect and assure the Administrative Agent of its rights and interests hereunder. Furthermore, each Grantor also hereby irrevocably makes, constitutes and appoints the Administrative Agent, its nominee or any other person whom the Administrative Agent may designate, as such Grantor's attorney in fact with full power and for the limited purpose to prepare and file (and, to the extent applicable, sign) in the name of such Grantor any financing statements, or amendments and supplements to financing statements, renewal financing statements, notices or any similar documents which in the Administrative Agent's reasonable discretion would be necessary or appropriate in order to perfect and maintain perfection of the security interests granted hereunder, such power, being coupled with an interest, being and remaining irrevocable until the Facility Termination Date. Each Grantor hereby agrees that a carbon, photographic or other reproduction of this Agreement or any such financing statement is sufficient for filing as a financing statement by the Administrative Agent without notice thereof to such Grantor wherever the Administrative Agent may in its sole discretion desire to file the same.

(e) Collateral Held by Warehouseman, Bailee, etc.

(i) If any Collateral with a value in excess of \$700,000 is in the possession or control of any one warehouseman, bailee or any agent or processor of such Grantor or if there is any Collateral with a value in excess of \$1,800,000 in the aggregate for all such warehousemen, bailees or any agents or processors of such Grantor (A) notify the Administrative Agent of such possession, (B) notify such Person in writing of the Administrative Agent's security interest for the benefit of the Secured Parties in such Collateral, (C) instruct such Person to hold all such Collateral for the Administrative Agent's account and subject to the Administrative Agent's instructions and (D) unless otherwise consented to in writing by the Administrative Agent, obtain (1) a written acknowledgment from such Person that it is holding such Collateral for the benefit of the Administrative Agent and (2) such other documentation required by the Administrative Agent (including, without limitation, subordination and access agreements).

(ii) Perfect and protect such Grantor's ownership interests in all Inventory with a value in excess of \$700,000 at any one location and \$1,800,000 in the aggregate at all such locations, stored with a consignee against creditors of the consignee by filing and maintaining financing statements against the consignee reflecting the consignment arrangement filed in all appropriate filing offices, providing any written notices required by the UCC to notify any prior creditors of the consignee of the consignment arrangement, and taking such other actions as may be appropriate to perfect and protect such Grantor's interests in such inventory under Section 2-326, Section 9-103, Section 9-324 and Section 9-505 of the UCC or otherwise, which such financing statements filed pursuant to this Section shall be assigned to the Administrative Agent, for the benefit of the Secured Parties.

(f) Treatment of Accounts. Not grant or extend the time for payment of any Account, or compromise or settle any Account for less than the full amount thereof, or release any person or property, in whole or in part, from payment thereof, or amend, supplement or modify any Account in any manner that could reasonably be likely to adversely affect the value thereof, or allow any credit or discount thereon, other than as normal and customary in the ordinary course of a Grantor's business or in respect of Accounts with a face value of less than \$250,000. Each Grantor will deliver to the Administrative Agent a copy of each material demand, notice or document received by it that questions or calls into doubt the validity or enforceability of any Account, but only if the amount of such Account subject to doubt or question, whether as to enforceability or otherwise, exceeds \$250,000.

(g) Commercial Tort Claims. Execute and deliver such statements, documents and notices and do and cause to be done all such things as may be required by the Administrative Agent, or required by Law to create, preserve, perfect and maintain the Administrative Agent's security interest in any Commercial Tort Claims with a value in excess of \$250,000 initiated by or in favor of any Grantor.

(h) Inventory. With respect to the Inventory of each Grantor:

(i) At all times maintain inventory records reasonably satisfactory to the Administrative Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory and such Grantor's cost therefore and daily withdrawals therefrom and additions thereto.

(ii) Produce, use, store and maintain the Inventory with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable Laws (including the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto).

(i) Books and Records . Mark its books and records (and shall cause the Issuer of the Pledged Equity of such Grantor to mark its books and records) to reflect the security interest granted pursuant to this Agreement.

(j) Nature of Collateral . At all times maintain the Collateral, other than Collateral consisting of Fixtures or real property, as personal property and not affix any of the Collateral to any real property in a manner which would change its nature from personal property to real property or a Fixture to real property, unless the Administrative Agent shall have a perfected Lien on such Fixture or real property or the aggregate value of Collateral so affixed is less than \$250,000.

(k) Issuance or Acquisition of Equity Interests in Partnerships or Limited Liability Companies .

(i) Not without executing and delivering, or causing to be executed and delivered, to the Administrative Agent such agreements, documents and instruments as the Administrative Agent may reasonably require, issue or acquire any Pledged Equity consisting of an interest in a partnership or a limited liability company, to the extent such Pledged Equity has an aggregate value of \$250,000 or more, that (A) is dealt in or traded on a securities exchange or in a securities market, (B) by its terms expressly provides that it is a Security governed by Article 8 of the UCC, (C) is an investment company security, (D) is held in a Securities Account or (E) constitutes a Security or a Financial Asset.

(ii) Without the prior written consent of the Administrative Agent, no Grantor will (A) vote to enable, or take any other action to permit, any applicable Issuer to issue any Investment Property or Equity Interests constituting partnership or limited liability company interests, except for those additional Investment Property or Equity Interests constituting partnership or limited liability company interests that will be subject to the security interest granted herein in favor of the Secured Parties, or (B) enter into any agreement or undertaking, except in connection with a Disposition permitted under Sections 7.04 or 7.05 of the Credit Agreement, restricting the right or ability of such Grantor or the Administrative Agent to sell, assign or transfer any Investment Property or Pledged Equity or Proceeds thereof. The Grantors will take commercially reasonable efforts to defend the right, title and interest of the Administrative Agent in and to any Investment Property and Pledged Equity against the claims and demands of all Persons whomsoever.

(iii) If any Grantor shall become entitled to receive or shall receive (A) any Certificated Securities (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights in respect of the ownership interests of any Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any Investment Property, or otherwise in respect thereof, or (B) any sums paid upon or in respect of any Investment Property upon the liquidation or dissolution of any Issuer, such Grantor shall accept the same as the agent of the Secured Parties, hold the same in trust for the Secured Parties, segregated from other funds of such Grantor, and, if the aggregate value thereof is in excess of \$250,000, promptly deliver the same to the Administrative Agent, on behalf of the Secured Parties, in accordance with the terms hereof.

(l) Intellectual Property .

(i) Not do any act or omit to do any act whereby any material Copyright may become invalidated and (A) not do any act, or omit to do any act, whereby any material Copyright may become injected into the public domain; (B) notify the Administrative Agent immediately if it knows that any material Copyright may become injected into the public domain or of any materially adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any court or tribunal in the United States or any other country) regarding a Grantor's ownership of any such Copyright or its validity; (C) take all necessary steps as it shall deem appropriate under the circumstances, to maintain and pursue each application (and to obtain the relevant registration) of each material Copyright owned by a Grantor and to maintain each registration of each material Copyright owned by a Grantor including, without limitation, filing of applications for renewal where necessary; and (D) promptly notify the Administrative Agent of any material infringement, misappropriation, dilution or impairment of any material Copyright of a Grantor of which it becomes aware and take such actions as it shall reasonably deem appropriate under the circumstances to protect such Copyright, including, where appropriate, the bringing of suit for infringement, dilution or impairment or seeking injunctive relief and seeking to recover any and all damages for such infringement, misappropriation, dilution or impairment.

(ii) Not make any assignment or agreement in conflict with the security interest in the Copyrights of each Grantor hereunder (except as permitted by the Credit Agreement or the other Loan Documents).

(iii) (A) Continue to use each material Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (B) maintain as in the past the quality of products and services offered under such Trademark, (C) employ such Trademark with the appropriate notice of registration, if applicable, (D) not adopt or use any mark that is confusingly similar or a colorable imitation of such Trademark unless the Administrative Agent, for the benefit of the Secured Parties, shall obtain a perfected security interest in such mark pursuant to this Agreement, and (E) not (and not permit any licensee or sublicensee thereof to) do any act or omit to do any act whereby any such Trademark may become invalidated.

(iv) Not do any act, or omit to do any act, whereby any material Patent may become abandoned or dedicated.

(v) Notify the Administrative Agent immediately if it knows that any application or registration relating to any material Patent or Trademark may become abandoned or dedicated, or of any materially adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the USPTO or any court or tribunal in any country) regarding such Grantor ownership of any Patent or Trademark or its right to register the same or to keep and maintain the same.

(vi) Take all reasonable and necessary steps, including, without limitation, in any proceeding before the USPTO, or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of each material Patent and Trademark, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.

(vii) Promptly notify the Administrative Agent after it learns that any material Patent or Trademark included in the Collateral is infringed, misappropriated, diluted or impaired by a third party and promptly sue for infringement, misappropriation, dilution or impairment, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation, dilution or impairment, or to take such other actions as it shall reasonably deem appropriate under the circumstances to protect such material Patent or Trademark.

(viii) Not make any assignment or agreement in conflict with the security interest in the Patents or Trademarks of each Grantor hereunder (except as permitted by the Credit Agreement or the other Loan Documents).

(ix) Grants to the Administrative Agent a royalty free license to use such Grantor's Intellectual Property in connection with the enforcement of the Administrative Agent's rights hereunder, but only to the extent any license or agreement granting such Grantor rights in such Intellectual Property do not prohibit such use by the Administrative Agent.

Notwithstanding the foregoing, the Grantors may, in their reasonable business judgment, fail to maintain, pursue, preserve or protect any Copyright, Patent or Trademark which is not material to their businesses.

(m) Equipment. Maintain each item of Equipment in good working order and condition (reasonable wear and tear and obsolescence excepted).

(n) Government Contracts. Promptly notify the Administrative Agent, in writing, if it enters into any contract with a Governmental Authority under which such Governmental Authority, as account debtor, owes a monetary obligation to any Grantor under any Account.

(o) Vehicles. Upon the request of the Administrative Agent upon the occurrence and during the continuance of an Event of Default, file or cause to be filed in each office in each jurisdiction which the Administrative Agent shall deem reasonably advisable to perfect its Liens on the Vehicles, all applications for certificates of title or ownership (and any other necessary documentation) indicating the Administrative Agent's first priority Lien on the Vehicle (subject to any Permitted Liens) covered by such certificate, in each case to the extent such Vehicle has a fair market value of \$50,000 or more.

(p) Internet Property Rights. Upon the request of the Administrative Agent made after the occurrence and during the continuance of an Event of Default, with respect to its rights, titles and interests in and to any internet domain names or registration rights relating thereto, and any internet websites or the content thereof (collectively, "Internet Property Rights") whether now existing or hereafter created or acquired and wheresoever located, each Grantor shall cause to be delivered to the Administrative Agent an undated transfer document with respect to each of its internet domain names, duly executed in blank by such Grantor and in the form required by the applicable internet domain name registrar, sufficient to effect the transfer of each internet domain name to the transferee thereof named in such transfer form upon delivery to such registrar. Notwithstanding anything to the contrary in the immediately preceding sentence, the requirements of this Section 4(p) shall not apply to any domain names permitted to be disposed of pursuant to Section 7.05(k) of the Credit Agreement.

(q) Further Assurances.

(i) Promptly upon the request of the Administrative Agent and at the sole expense of the Grantors, duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Administrative Agent may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, (A) the assignment of any Material Contract, other than Governmental Contracts governed by clause (B) of this Section 4(q)(i), (B) with respect to Government Contracts, assignment agreements and notices of assignment, in form and substance satisfactory to the Administrative Agent, duly executed by any Grantors party to such Government Contract in compliance with the Assignment of Claims Act (or analogous state applicable Law), and (C) all applications, certificates, instruments, registration statements, and all other documents and papers the Administrative Agent may reasonably request and as may be required by law in connection with the obtaining of any consent, approval, registration, qualification, or authorization of any Person deemed necessary or appropriate for the effective exercise of any rights under this Agreement; provided that no Grantor shall be required to take any action to perfect a security interest in any Collateral that the Administrative Agent reasonably determines in its sole discretion that the costs and burdens to the Grantors of perfecting a security interest in such Collateral (including any applicable stamp, intangibles or other taxes) are excessive in relation to value to the Lenders afforded thereby.

(ii) From time to time upon the Administrative Agent's reasonable request, promptly furnish such updates to the information disclosed pursuant to this Agreement and the Credit Agreement, including any Schedules hereto or thereto, such that such updated information is true and correct in all material respects as of the date so furnished.

5. Authorization to File Financing Statements. Each Grantor hereby authorizes the Administrative Agent to prepare and file such financing statements (including continuation statements) or amendments thereof or supplements thereto or other instruments as the Administrative Agent may from time to time deem necessary or appropriate in order to perfect and maintain the security interests granted hereunder in accordance with the UCC, which such financing statements may describe the Collateral in the same manner as described herein or may contain an indication or description of Collateral that describes such property in any other manner as the Administrative Agent may determine, in its reasonable discretion, is necessary, advisable or prudent to ensure the perfection of the security interest in the Collateral granted herein, including, without limitation, describing such property as "all assets, whether now owned or hereafter acquired" or "all personal property, whether now owned or hereafter acquired."

6. Advances. On failure of any Grantor to perform any of the covenants and agreements contained herein or in any other Loan Document, the Administrative Agent may, at its sole option and in its sole discretion, perform the same and in so doing may expend such sums as the Administrative Agent may reasonably deem advisable in the performance thereof, including, without limitation, the payment of any insurance premiums, the payment of any taxes, a payment to obtain a release of a Lien or potential Lien, expenditures made in defending against any Adverse Claim and all other expenditures which the Administrative Agent may make for the protection of the security hereof or which may be compelled to make by operation of Law. All such sums and amounts so expended shall be repayable by the Grantors on a joint and several basis promptly upon timely notice thereof and demand therefor, shall constitute additional Secured Obligations and shall bear interest from the date said amounts are expended at the Default Rate. No such performance of any covenant or agreement by the Administrative Agent on behalf of any Grantor, and no such advance or expenditure therefor, shall relieve the Grantors of any Default or Event of Default. The Administrative Agent may make any payment hereby authorized in accordance with any bill, statement or estimate procured from the appropriate public office or holder of the claim to be discharged without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax assessment, sale, forfeiture, tax lien, title or claim, in each case, except to the extent such payment is being contested in good faith by a Grantor in appropriate proceedings and against which adequate reserves are being maintained in accordance with GAAP.

7. Remedies.

(a) General Remedies. Upon the occurrence of an Event of Default and during the continuation thereof, the Administrative Agent on behalf of the Secured Parties shall have, in addition to the rights and remedies provided herein, in the Loan Documents, in any other documents relating to the Secured Obligations, or by any applicable Law (including, but not limited to, levy of attachment, garnishment and the rights and remedies set forth in the UCC of the jurisdiction applicable to the affected Collateral), the rights and remedies of a secured party under the UCC (regardless of whether the UCC is the law of the jurisdiction where the rights and remedies are asserted and regardless of whether the UCC applies to the affected Collateral), and further, the Administrative Agent may, with or without judicial process or the aid and assistance of others, subject to (A) rights reserved to any landlord, warehouseman and/or bailee in an agreement between such party and the Administrative Agent in all cases where such types of agreements are executed in accordance with the terms of the Credit Agreement and (B) rights of landlords, warehousemen and/or bailees, in all other instances, (i) enter on any premises on which any of the Collateral may be located and, without resistance or interference by the Grantors, take possession of the Collateral, (ii) dispose of any Collateral on any such premises, (iii) require the Grantors to assemble and make available to the Administrative Agent at the expense of the Grantors any Collateral at any place and time designated by the Administrative Agent which is reasonably convenient to both parties, (iv) remove any Collateral from any such premises for the purpose of effecting sale or other disposition thereof, (v) without demand and without advertisement, notice, hearing or process of law, all of which each of the Grantors hereby waives to the fullest extent permitted by Law, at any place and time or times, sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels any or all Collateral held by or for it at public or private sale (which in the case of a private sale of Pledged Equity, shall be to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the distribution or resale thereof), at any exchange or broker's board or elsewhere, by one or more contracts, in one or more parcels, for money, upon credit or otherwise, at such prices and upon such terms as the Administrative Agent deems advisable, in its sole discretion (subject to any and all mandatory legal requirements) and/or (vi) complete and tender each internet domain name transfer document in its own name, place and stead of the Grantor in order to effect the transfer of any internet domain name registration, either to the Administrative Agent or to another transferee, as the case may be and maintain, obtain access to, and continue to operate, in its own name or in the name, place and stead of such Grantor, such Grantor's internet website and the contents thereof, and all related advertising, linking and technology licensing and other contractual relationships, in each case in connection with the maintenance, preservation, operation, sale or other disposition of the Collateral or for any other purpose permitted under the Loan Documents or by applicable Law. Each Grantor acknowledges that any such private sale may be at prices and on terms less favorable to the seller than the prices and other terms which might have been obtained at a public sale and, notwithstanding the foregoing, agrees that such private sale shall be deemed to have been made in a commercially reasonable manner and, in the case of a sale of Pledged Equity, that the Administrative Agent shall have no obligation to delay sale of any such securities for the period of time necessary to permit the Issuer of such securities to register such securities for public sale under the Securities Act of 1933. The Administrative Agent or any other Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by applicable Law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold. Neither the Administrative Agent's compliance with applicable Law nor its disclaimer of warranties relating to the Collateral shall be considered to adversely affect the commercial reasonableness of any sale. To the extent the rights of notice cannot be legally waived hereunder, each Grantor agrees that any requirement of reasonable notice shall be met if such notice, specifying the place of any public sale or the time after which any private sale is to be made, is personally served on or mailed, postage prepaid, to the Borrower in accordance with the notice provisions of Section 11.02 of the Credit Agreement at least 10 days before the time of sale or other event giving rise to the requirement of such notice. Each Grantor further acknowledges and agrees that any offer to sell any Pledged Equity which has been (A) publicly advertised on a bona fide basis in a newspaper or other publication of general circulation in the financial community of Los Angeles, California (to the extent that such offer may be advertised without prior registration under the Securities Act of 1933), or (B) made privately in the manner described above shall be deemed to involve a "public sale" under the UCC, notwithstanding that such sale may not constitute a "public offering" under the Securities Act of 1933, and the Administrative Agent may, in such event, bid for the purchase of such securities. The Administrative Agent shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. To the extent permitted by applicable Law, any Secured Party may be a purchaser at any such sale. To the extent permitted by applicable Law, each of the Grantors hereby waives all of its rights of redemption with respect to any such sale. Subject to the provisions of applicable Law, the Administrative Agent may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, to the extent permitted by Law, be made at the time and place to which the sale was postponed, or the Administrative Agent may further postpone such sale by announcement made at such time and place. To the extent permitted by applicable Law, each Grantor waives all claims, damages and demands it may acquire against the Administrative Agent or any Secured Party arising out of the exercise by them of any rights hereunder except to the extent any such claims, damages or demands result solely from the gross negligence or willful misconduct of the Administrative Agent or any other Secured Party as determined by a final non-appealable judgment of a court of competent jurisdiction, in each case against whom such claim is asserted. Each Grantor agrees that the internet shall constitute a "place" for purposes of Section 9-610(b) of the UCC and that any sale of Collateral to a licensor pursuant to the terms of a license agreement between such licensor and a Grantor is sufficient to constitute a commercially reasonable sale (including as to method, terms, manner, and time) within the meaning of Section 9-610 of the UCC.

(b) Remedies Relating to Accounts.

(i) During the continuation of an Event of Default, whether or not the Administrative Agent has exercised any or all of its rights and remedies hereunder, (A) each Grantor shall, promptly following the Administrative Agent's written request, notify (such notice to be in form and substance satisfactory to the Administrative Agent) its Account Debtors and parties to the Material Contracts subject to a security interest hereunder that such Accounts and the Material Contracts have been assigned to the Administrative Agent, for the benefit of the Secured Parties and promptly upon written request of the Administrative Agent, instruct all account debtors to remit all payments in respect of Accounts to a mailing location selected by the Administrative Agent and (B) the Administrative Agent shall have the right to enforce any Grantor's rights against its customers and account debtors, and the Administrative Agent or its designee may notify any Grantor's customers and account debtors that the Accounts of such Grantor have been assigned to the Administrative Agent or of the Administrative Agent's security interest therein, and may (either in its own name or in the name of a Grantor or both) demand, collect (including without limitation by way of a lockbox arrangement), receive, take receipt for, sell, sue for, compound, settle, compromise and give acquittance for any and all amounts due or to become due on any Account, and, in the Administrative Agent's discretion, file any claim or take any other action or proceeding to protect and realize upon the security interest of the Secured Parties in the Accounts.

(ii) Each Grantor acknowledges and agrees that the Proceeds of its Accounts remitted to or on behalf of the Administrative Agent in accordance with the provisions hereof shall be solely for the Administrative Agent's own convenience and that such Grantor shall not have any right, title or interest in such Accounts or in any such other amounts except as expressly provided herein. Neither the Administrative Agent nor the Secured Parties shall have any liability or responsibility to any Grantor for acceptance of a check, draft or other order for payment of money bearing the legend "payment in full" or words of similar import or any other restrictive legend or endorsement or be responsible for determining the correctness of any remittance.

(iii) During the continuation of an Event of Default, (A) the Administrative Agent shall have the right, but not the obligation, to make test verifications of the Accounts in any manner and through any medium that it reasonably considers advisable, and the Grantors shall furnish all such assistance and information as the Administrative Agent may require in connection with such test verifications, (B) upon the Administrative Agent's request and at the expense of the Grantors, the Grantors shall cause independent public accountants or others satisfactory to the Administrative Agent to furnish to the Administrative Agent reports showing reconciliations, aging and test verifications of, and trial balances for, the Accounts and (C) the Administrative Agent in its own name or in the name of others may communicate with account debtors on the Accounts to verify with them to the Administrative Agent's satisfaction the existence, amount and terms of any Accounts.

(iv) Upon the request of the Administrative Agent during the continuation of an Event of Default, each Grantor shall forward to the Administrative Agent, on the last Business Day of each week, deposit slips related to all cash, money, checks or any other similar items of payment received by the Grantor during such week, and, if requested by the Administrative Agent, copies of such checks or any other similar items of payment, together with a statement showing the application of all payments on the Collateral during such week and a collection report with regard thereto, in form and substance satisfactory to the Administrative Agent.

(c) Deposit Accounts/Securities Accounts. Upon the occurrence of an Event of Default and during continuation thereof, the Administrative Agent may prevent withdrawals or other dispositions of funds in Deposit Accounts and Securities Accounts subject to control agreements or held with any Secured Party.

(d) Investment Property/Pledged Equity. Upon the occurrence of an Event of Default and during the continuation thereof: the Administrative Agent shall have the right to (but shall not be required to) receive any and all cash dividends, payments or distributions made in respect of any Investment Property or Pledged Equity or other Proceeds paid in respect of any Investment Property or Pledged Equity, and any or all of any Investment Property or Pledged Equity may, at the option of the Administrative Agent, be registered in the name of the Administrative Agent or its nominee, and the Administrative Agent or its nominee may thereafter exercise (i) all voting, corporate and other rights pertaining to such Investment Property, or any such Pledged Equity at any meeting of shareholders, partners or members of the relevant Issuers or otherwise and (ii) any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Investment Property or Pledged Equity as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Investment Property or Pledged Equity upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate, partnership or limited liability company structure of any Issuer or upon the exercise by any Grantor or the Administrative Agent of any right, privilege or option pertaining to such Investment Property or Pledged Equity, and in connection therewith, the right to deposit and deliver any and all of the Investment Property or Pledged Equity with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as the Administrative Agent may determine), all without liability except to account for property actually received by it; but the Administrative Agent shall have no duty to any Grantor to exercise any such right, privilege or option and the Administrative Agent and the other Secured Parties shall not be responsible for any failure to do so or delay in so doing. In furtherance thereof, each Grantor hereby authorizes and instructs each Issuer with respect to any Collateral consisting of Investment Property and/or Pledged Equity to (A) comply with any instruction received by it from the Administrative Agent in writing that (1) states that an Event of Default has occurred and is continuing and (2) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from such Grantor, and each Grantor agrees that each Issuer shall be fully protected in so complying following receipt of such notice and prior to notice that such Event of Default is no longer continuing, and (B) except as otherwise expressly permitted hereby, pay any dividends, distributions or other payments with respect to any Investment Property or Pledged Equity directly to the Administrative Agent. Unless an Event of Default shall have occurred and be continuing and the Administrative Agent shall have given notice to the relevant Grantor of the Administrative Agent's intent to exercise its corresponding rights pursuant to this Section 7, each Grantor shall be permitted to receive all cash dividends, payments or other distributions made in respect of any Investment Property and any Pledged Equity, in each case paid in the normal course of business of the relevant Issuer and consistent with past practice, to the extent permitted in the Credit Agreement, and to exercise all voting and other corporate, company and partnership rights with respect to any Investment Property and Pledged Equity to the extent not inconsistent with the terms of this Agreement and the other Loan Documents.

(e) Material Contracts. Upon the occurrence of an Event of Default and during the continuation thereof, the Administrative Agent shall be entitled to (but shall not be required to): (i) proceed to perform any and all obligations of the applicable Grantor under any Material Contract and exercise all rights of such Grantor thereunder as fully as such Grantor itself could, (ii) do all other acts which the Administrative Agent may deem necessary or proper to protect its security interest granted hereunder, provided such acts are not inconsistent with or in violation of the terms of any of the Credit Agreement, of the other Loan Documents or applicable Law, and (iii) sell, assign or otherwise transfer any Material Contract in accordance with the Credit Agreement, the other Loan Documents and applicable Law, subject, however, to the prior approval of each other party to such Material Contract, to the extent required under such Material Contract.

(f) Access. In addition to the rights and remedies hereunder, upon the occurrence of an Event of Default and during the continuance thereof, subject to (A) rights reserved to any landlord, warehouseman and/or bailee in an agreement between such party and the Administrative Agent in all cases where such types of agreements are executed in accordance with the terms of the Credit Agreement and (B) rights of landlords, warehousemen and/or bailees, in all other instances, the Administrative Agent shall have the right to enter and remain upon the various premises of the Grantors without cost or charge to the Administrative Agent, and use the same, together with materials, supplies, books and records of the Grantors for the purpose of collecting and liquidating the Collateral, or for preparing for sale and conducting the sale of the Collateral, whether by foreclosure, auction or otherwise. In addition, subject to rights reserved to any landlord, warehouseman or bailee in an agreement between such party and the Administrative Agent, the Administrative Agent may remove Collateral, or any part thereof, from such premises and/or any records with respect thereto, in order to effectively collect or liquidate such Collateral. If the Administrative Agent exercises its right to take possession of the Collateral, each Grantor shall also at its expense perform any and all other steps reasonably requested by the Administrative Agent to preserve and protect the security interest hereby granted in the Collateral, such as placing and maintaining signs indicating the security interest of the Administrative Agent, appointing overseers for the Collateral and maintaining inventory records.

(g) Nonexclusive Nature of Remedies. Failure by the Administrative Agent or the Secured Parties to exercise any right, remedy or option under this Agreement, any other Loan Document, any other document relating to the Secured Obligations, or as provided by Law, or any delay by the Administrative Agent or the Secured Parties in exercising the same, shall not operate as a waiver of any such right, remedy or option. No waiver hereunder shall be effective unless it is in writing, signed by the party against whom such waiver is sought to be enforced and then only to the extent specifically stated, which in the case of the Administrative Agent or the Secured Parties shall only be granted as provided herein. To the extent permitted by Law, neither the Administrative Agent, the Secured Parties, nor any party acting as attorney for the Administrative Agent or the Secured Parties, shall be liable hereunder for any acts or omissions or for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct hereunder as determined by a final non-appealable judgment of a court of competent jurisdiction. The rights and remedies of the Administrative Agent and the Secured Parties under this Agreement shall be cumulative and not exclusive of any other right or remedy which the Administrative Agent or the Secured Parties may have.

(h) Retention of Collateral. In addition to the rights and remedies hereunder, the Administrative Agent may, in compliance with Sections 9-620 and 9-621 of the UCC or otherwise complying with the requirements of applicable Law of the relevant jurisdiction, accept or retain the Collateral in satisfaction of the Secured Obligations. Unless and until the Administrative Agent shall have provided such notices, however, the Administrative Agent shall not be deemed to have retained any Collateral in satisfaction of any Secured Obligations for any reason.

(i) Waiver: Deficiency. Each Grantor hereby waives, to the extent permitted by applicable Laws, all rights of redemption, appraisal, valuation, stay, extension or moratorium now or hereafter in force under any applicable Laws in order to prevent or delay the enforcement of this Agreement or the absolute sale of the Collateral or any portion thereof. In the event that the proceeds of any sale, collection or realization are insufficient to pay all amounts to which the Administrative Agent or the Secured Parties are legally entitled, the Grantors shall be jointly and severally liable for the deficiency, together with interest thereon at the Default Rate, together with the costs of collection and the fees, charges and disbursements of counsel. Any surplus remaining after the full payment and satisfaction of the Secured Obligations shall be returned to the Grantors or to whomsoever a court of competent jurisdiction shall determine to be entitled thereto.

(j) Registration Rights.

(i) If the Administrative Agent shall determine that in order to exercise its right to sell any or all of the Collateral it is necessary or advisable to have such Collateral registered under the provisions of the Securities Act (any such Collateral, the “Restricted Securities Collateral”), the relevant Grantor will cause each applicable Issuer (acting through the officers and directors thereof) that is a Grantor or a Subsidiary of a Grantor to (A) execute and deliver all such instruments and documents, and do or cause to be done all such other acts as may be, in the opinion of the Administrative Agent, necessary or advisable to register such Restricted Securities Collateral, or that portion thereof to be sold, under the provisions of the Securities Act, (B) use its commercially reasonable efforts to cause the registration statement relating thereto to become effective and to remain effective for a period of one year from the date of the first public offering of such Restricted Securities Collateral, or that portion thereof to be sold, and (C) make all amendments thereto and/or to the related prospectus which, in the opinion of the Administrative Agent, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Each Grantor agrees to cause each applicable Issuer (acting through the officers and directors thereof) to comply with the provisions of the securities or “Blue Sky” laws of any and all jurisdictions which the Administrative Agent shall designate and to make available to its security holders, as soon as practicable, an earnings statement (which need not be audited) which will satisfy the provisions of the Securities Act.

(ii) Each Grantor agrees to use its commercially reasonable efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Restricted Securities Collateral valid and binding and in compliance with any and all other applicable Laws. Each Grantor further agrees that a breach of any of the covenants contained in this Section 7 will cause irreparable injury to the Administrative Agent and the other Secured Parties, that the Administrative Agent and the other Secured Parties have no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 7 shall be specifically enforceable against such Grantor, and such Grantor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Credit Agreement.

8. Rights of the Administrative Agent.

(a) Power of Attorney. In addition to other powers of attorney contained herein, each Grantor hereby designates and appoints the Administrative Agent, on behalf of the Secured Parties, and each of its designees or agents, as attorney-in-fact of such Grantor, irrevocably and with power of substitution, with authority to take any or all of the following actions upon the occurrence and during the continuance of an Event of Default:

- (i) to demand, collect, settle, compromise, adjust, give discharges and releases, all as the Administrative Agent may reasonably determine;
- (ii) to commence and prosecute any actions at any court for the purposes of collecting any Collateral and enforcing any other right in respect thereof;

(iii) to defend, settle or compromise any action brought and, in connection therewith, give such discharge or release as the Administrative Agent may deem reasonably appropriate;

(iv) to receive, open and dispose of mail addressed to a Grantor and endorse checks, notes, drafts, acceptances, money orders, bills of lading, warehouse receipts or other instruments or documents evidencing payment, shipment or storage of the goods giving rise to the Collateral of such Grantor on behalf of and in the name of such Grantor, or securing, or relating to such Collateral;

(v) to sell, assign, transfer, make any agreement in respect of, or otherwise deal with or exercise rights in respect of, any Collateral or the goods or services which have given rise thereto, as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes;

(vi) to adjust and settle claims under any insurance policy relating to any Collateral;

(vii) to execute and deliver all assignments, conveyances, statements, financing statements, continuation financing statements, security agreements, affidavits, notices and other agreements, instruments and documents that the Administrative Agent may determine necessary in order to perfect and maintain the security interests and liens granted in this Agreement and in order to fully consummate all of the transactions contemplated herein;

(viii) to institute any foreclosure proceedings that the Administrative Agent may deem appropriate;

(ix) to sign and endorse any drafts, assignments, proxies, stock powers, verifications, notices and other documents relating to the Collateral;

(x) to exchange any of the Pledged Equity or other property upon any merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof and, in connection therewith, deposit any of the Pledged Equity with any committee, depository, transfer agent, registrar or other designated agency upon such terms as the Administrative Agent may reasonably deem appropriate;

(xi) to vote for a shareholder resolution, or to sign an instrument in writing, sanctioning the transfer of any or all of the Pledged Equity into the name of the Administrative Agent or one or more of the Secured Parties or into the name of any transferee to whom the Pledged Equity or any part thereof may be sold pursuant to Section 7 hereof;

(xii) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral;

(xiii) to direct any parties liable for any payment in connection with any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Administrative Agent or as the Administrative Agent shall direct;

(xiv) to receive payment of and receipt for any and all monies, claims, and other amounts due and to become due at any time in respect of or arising out of any Collateral;

(xv) in the case of any Intellectual Property, execute and deliver, and have recorded, any and all agreements, instruments, documents and papers as the Administrative Agent may request to evidence the security interests created hereby in such Intellectual Property and the goodwill and General Intangibles of such Grantor relating thereto or represented thereby; and

(xvi) do and perform all such other acts and things as the Administrative Agent may reasonably deem to be necessary, proper or convenient in connection with the Collateral.

This power of attorney is a power coupled with an interest and shall be irrevocable until the Facility Termination Date. The Administrative Agent shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to the Administrative Agent in this Agreement, and shall not be liable for any failure to do so or any delay in doing so. The Administrative Agent shall not be liable for any act or omission or for any error of judgment or any mistake of fact or law in its individual capacity or its capacity as attorney-in-fact except acts or omissions resulting from its gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. This power of attorney is conferred on the Administrative Agent solely to protect, preserve and realize upon its security interest in the Collateral and shall not impose any duty upon the Administrative Agent or any other Secured Party to exercise any such powers.

(b) Assignment by the Administrative Agent. The Administrative Agent may from time to time assign the Secured Obligations to a successor Administrative Agent appointed in accordance with the Credit Agreement, and such successor shall be entitled to all of the rights and remedies of the Administrative Agent under this Agreement in relation thereto.

(c) The Administrative Agent's Duty of Care. Other than the exercise of reasonable care to assure the safe custody of the Collateral while being held by the Administrative Agent hereunder, the Administrative Agent shall have no duty or liability to preserve rights pertaining thereto, it being understood and agreed that the Grantors shall be responsible for preservation of all rights in the Collateral, and the Administrative Agent shall be relieved of all responsibility for the Collateral upon surrendering it or tendering the surrender of it to the Grantors. The Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the Administrative Agent accords its own property, which shall be no less than the treatment employed by a reasonable and prudent agent in the industry, it being understood that the Administrative Agent shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any of the Collateral. In the event of a public or private sale of Collateral pursuant to Section 7 hereof, the Administrative Agent shall have no responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Collateral, whether or not the Administrative Agent has or is deemed to have knowledge of such matters, or (ii) taking any steps to clean, repair or otherwise prepare the Collateral for sale.

(d) Liability with Respect to Accounts. Anything herein to the contrary notwithstanding, each of the Grantors shall remain liable under each of the Accounts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account. Neither the Administrative Agent nor any Secured Party shall have any obligation or liability under any Account (or any agreement giving rise thereto) by reason of or arising out of this Agreement or the receipt by the Administrative Agent or any Secured Party of any payment relating to such Account pursuant hereto, nor shall the Administrative Agent or any Secured Party be obligated in any manner to perform any of the obligations of a Grantor under or pursuant to any Account (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto), to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(e) Releases of Collateral.

(i) If any Collateral shall be sold, transferred or otherwise disposed of by any Grantor in a transaction permitted by the Credit Agreement, then the Administrative Agent, at the request and sole expense of such Grantor, shall promptly execute and deliver to such Grantor all releases and other documents, and take such other action, reasonably necessary for the release of the Liens created hereby or by any other Collateral Document on such Collateral.

(ii) The Administrative Agent may release any of the Pledged Equity from this Agreement or may substitute any of the Pledged Equity for other Pledged Equity without altering, varying or diminishing in any way the force, effect, lien, pledge or security interest of this Agreement as to any Pledged Equity not expressly released or substituted, and this Agreement shall continue as a first priority lien on all Pledged Equity not expressly released or substituted.

9. Application of Proceeds. After the exercise of remedies provided for in Section 8.02 of the Credit Agreement (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in Section 8.02 of the Credit Agreement) any payments in respect of the Secured Obligations and any proceeds of the Collateral, when received by the Administrative Agent or any Secured Party in cash or Cash Equivalents will be applied in reduction of the Secured Obligations in the order set forth in the Credit Agreement.

10. Continuing Agreement.

(a) This Agreement shall remain in full force and effect until the Facility Termination Date, at which time this Agreement shall be automatically terminated (other than obligations under this Agreement which expressly survive such termination) and the Administrative Agent shall, upon the request and at the expense of the Grantors, forthwith release all of its liens and security interests hereunder and shall execute and deliver all UCC termination statements and/or other documents reasonably requested by the Grantors evidencing such termination.

(b) This Agreement shall continue to be effective or be automatically reinstated, as the case may be, if at any time payment, in whole or in part, of any of the Secured Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Secured Party as a preference, fraudulent conveyance or otherwise under any Debtor Relief Law, all as though such payment had not been made; provided that in the event payment of all or any part of the Secured Obligations is rescinded or must be restored or returned, all reasonable and documented out-of-pocket costs and expenses (including without limitation any reasonable legal fees and disbursements of outside counsel to the extent reimbursable pursuant to Section 11.04 of the Credit Agreement) incurred by the Administrative Agent or any Secured Party in defending and enforcing such reinstatement shall be deemed to be included as a part of the Secured Obligations.

11. Amendments; Waivers; Modifications, etc. This Agreement and the provisions hereof may not be amended, waived, modified, changed, discharged or terminated except as set forth in Section 11.01 of the Credit Agreement.

12. Successors in Interest. This Agreement shall be binding upon each Grantor, its successors and assigns and shall inure, together with the rights and remedies of the Administrative Agent and the Secured Parties hereunder, to the benefit of the Administrative Agent and the Secured Parties and their successors and permitted assigns.

13. Notices. All notices required or permitted to be given under this Agreement shall be in conformance with Section 11.02 of the Credit Agreement; provided that notices and communications to the Grantors shall be directed to the Grantors, at the address of the Borrower set forth in Section 11.02 of the Credit Agreement.

14. Counterparts. This Agreement may be executed in any number of counterparts, each of which where so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. Delivery of an executed counterpart of a signature page of this Agreement by fax transmission or other electronic mail transmission (e.g. “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart of this Agreement. Without limiting the foregoing, to the extent a manually executed counterpart is not specifically required to be delivered, upon the request of any party, such fax transmission or electronic mail transmission shall be promptly followed by such manually executed counterpart.

15. Headings. The headings of the sections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

16. Governing Law; Submission to Jurisdiction; Venue; WAIVER OF JURY TRIAL. The terms of Sections 11.14 and 11.15 of the Credit Agreement with respect to governing law, submission to jurisdiction, venue and waiver of jury trial are incorporated herein by reference, *mutatis mutandis*, and the parties hereto agree to such terms.

17. Severability. If any provision of this Agreement is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

18. Entirety. This Agreement, the other Loan Documents and the other documents relating to the Secured Obligations represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Loan Documents, any other documents relating to the Secured Obligations, or the transactions contemplated herein and therein.

19. Other Security. To the extent that any of the Secured Obligations are now or hereafter secured by property other than the Collateral (including, without limitation, real property and securities owned by a Grantor), or by a guarantee, endorsement or property of any other Person, then the Administrative Agent shall have the right to proceed against such other property, guarantee or endorsement upon the occurrence of any Event of Default, and the Administrative Agent shall have the right, in its sole discretion, to determine which rights, security, liens, security interests or remedies the Administrative Agent shall at any time pursue, relinquish, subordinate, modify or take with respect thereto, without in any way modifying or affecting any of them or the Secured Obligations or any of the rights of the Administrative Agent or the Secured Parties under this Agreement, under any other of the Loan Documents or under any other document relating to the Secured Obligations.

20. Joinder. At any time after the date of this Agreement, one or more additional Persons may become party hereto by executing and delivering to the Administrative Agent a Joinder Agreement in the form of Exhibit D to the Credit Agreement or such other form acceptable to the Administrative Agent. Immediately upon such execution and delivery of such Joinder Agreement (and without any further action), each such additional Person will become a party to this Agreement as a “Grantor” and have all of the rights and obligations of a Grantor hereunder and this Agreement and the schedules hereto shall be deemed amended by such Joinder Agreement.

21. Consent of Issuers of Pledged Equity. Any Loan Party that is an Issuer hereby acknowledges, consents and agrees to the grant of the security interests in such Pledged Equity by the applicable Grantors pursuant to this Agreement, together with all rights accompanying such security interest as provided by this Agreement and applicable Law, notwithstanding any anti-assignment provisions in any operating agreement, limited partnership agreement or similar organizational or governance documents of such Issuer.

22. Joint and Several Obligations of Grantors.

(a) Each of the Grantors is accepting joint and several liability hereunder in consideration of the financial accommodations to be provided by the Lenders under the Credit Agreement, for the mutual benefit, directly and indirectly, of each of the Grantors and in consideration of the undertakings of each of the Grantors to accept joint and several liability for the obligations of each of them.

(b) Each of the Grantors jointly and severally hereby irrevocably and unconditionally accepts, not merely as a surety but also as a primary obligor, joint and several liability with the other Grantors with respect to the payment and performance of all of the Secured Obligations, it being the intention of the parties hereto that (i) all the Secured Obligations shall be the joint and several obligations of each of the Grantors without preferences or distinction among them and (ii) a separate action may be brought against each Grantor to enforce this Agreement whether or not the Borrower, any other Grantor or any other person or entity is joined as a party.

(c) Notwithstanding any provision to the contrary contained herein, in any other of the Loan Documents, to the extent the obligations of a Grantor shall be adjudicated to be invalid or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers) then the obligations of such Grantor hereunder shall be limited to the maximum amount that is permissible under applicable law (whether federal or state and including, without limitation, Debtor Relief Laws).

23. Marshaling. The Administrative Agent shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Secured Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, each Grantor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Administrative Agent's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Secured Obligations or under which any of the Secured Obligations is outstanding or by which any of the Secured Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each Grantor hereby irrevocably waives the benefits of all such laws.

24. Injunctive Relief.

(a) Each Grantor recognizes that, in the event such Grantor fails to perform, observe or discharge any of its obligations or liabilities under this Agreement or any other Loan Document, any remedy of law may prove to be inadequate relief to the Administrative Agent and the other Secured Parties. Therefore, each Grantor agrees that the Administrative Agent and the other Secured Parties, at the option of the Administrative Agent and the other Secured Parties, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

(b) The Administrative Agent, the other Secured Parties and each Grantor hereby agree that no such Person shall have a remedy of punitive or exemplary damages against any other party to a Loan Document and each such Person hereby waives any right or claim to punitive or exemplary damages that they may now have or may arise in the future in connection with any dispute under this Agreement or any other Loan Document, whether such dispute is resolved through arbitration or judicially.

25. Secured Parties. Each Secured Party that is not a party to the Credit Agreement who obtains the benefit of this Agreement shall be deemed to have acknowledged and accepted the appointment of the Administrative Agent pursuant to the terms of the Credit Agreement, and with respect to the actions and omissions of the Administrative Agent hereunder or otherwise relating hereto that do or may affect such Secured Party, the Administrative Agent and each of its Affiliates shall be entitled to all of the rights, benefits and immunities conferred under Article IX of the Credit Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

GRANTORS:

UNITED ONLINE, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Chief Financial Officer

ADCURATE, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

CLASSMATES MEDIA CORPORATION,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

CLASSMATES INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

CMC SERVICES, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

Security and Pledge Agreement

JUNO ONLINE SERVICES, INC.,

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Vice President and Treasurer

JUNO INTERNET SERVICES, INC.,

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Vice President and Treasurer

NETZERO, INC.,

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Vice President and Treasurer

NETZERO MODECOM, INC.,

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Vice President and Treasurer

NETZERO WIRELESS, INC.,

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Vice President and Treasurer

Security and Pledge Agreement

UNITED ONLINE ADVERTISING NETWORK, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

UNITED ONLINE APPS, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

UNITED ONLINE COMMUNICATIONS, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

UOL ADVERTISING, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

UNITED ONLINE WEB SERVICES, INC.,
a Delaware corporation

By: /s/ Phillip J. Ahn
Name: Phillip J. Ahn
Title: Vice President and Treasurer

Security and Pledge Agreement

Accepted and agreed to as of the date first above written.

BANC OF CALIFORNIA, N.A.,
as Administrative Agent

By: /s/ Sibyl Kavak

Name: Sibyl Kavak

Title: Vice President

Security and Pledge Agreement

EXHIBIT A

[FORM OF]

IRREVOCABLE STOCK POWER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers to _____ the following Equity Interests of _____, a [_____] [corporation] [limited liability company]:

No. of Shares

Certificate No.

and irrevocably appoints _____ its agent and attorney-in-fact to transfer all or any part of such Equity Interests and to take all necessary and appropriate action to effect any such transfer. The agent and attorney-in-fact may substitute and appoint one or more persons to act for him.

By: _____
Name: _____
Title: _____

Exhibit A

EXHIBIT B

[FORM OF]

NOTICE OF
GRANT OF SECURITY INTEREST
IN COPYRIGHTS

[United States Copyright Office] [Canadian Intellectual Property Office]

Ladies and Gentlemen:

Please be advised that pursuant to the Security and Pledge Agreement dated as of April 13, 2017 (as amended, modified, extended, restated, renewed, replaced, or supplemented from time to time, the "Agreement") by and among the Grantors party thereto (each a "Grantor" and collectively, the "Grantors") and Banc of California, N.A., as administrative agent (the "Administrative Agent") for the Secured Parties referenced therein, the undersigned Grantor has granted a continuing security interest in and continuing lien upon the copyrights and copyright applications shown on Schedule 1, attached hereto, to the Administrative Agent for the ratable benefit of the Secured Parties.

The undersigned Grantor and the Administrative Agent, on behalf of the Secured Parties, hereby acknowledge and agree that the security interest in the foregoing copyrights and copyright applications (a) may only be terminated in accordance with the terms of the Agreement and (b) is not to be construed as an assignment of any copyright or copyright application.

Very truly yours,

[GRANTOR]

By: _____
Name: _____
Title: _____

Acknowledged and Accepted:

BANC OF CALIFORNIA, N.A., as Administrative Agent

By: _____
Name: _____
Title: _____

Exhibit B

EXHIBIT C

[FORM OF]

NOTICE OF
GRANT OF SECURITY INTEREST
IN PATENTS

[United States Patent and Trademark Office] [Canadian Intellectual Property Office]

Ladies and Gentlemen:

Please be advised that pursuant to the Security and Pledge Agreement dated as of April 13, 2017 (as amended, modified, extended, restated, renewed, replaced, or supplemented from time to time, the “Agreement”) by and among the Grantors party thereto (each a “Grantor” and collectively, the “Grantors”) and Banc of California, N.A., as administrative agent (the “Administrative Agent”) for the Secured Parties referenced therein, the undersigned Grantor has granted a continuing security interest in and continuing lien upon the patents and patent applications shown on Schedule 1, attached hereto, to the Administrative Agent for the ratable benefit of the Secured Parties.

The undersigned Grantor and the Administrative Agent, on behalf of the Secured Parties, hereby acknowledge and agree that the security interest in the foregoing patents and patent applications (a) may only be terminated in accordance with the terms of the Agreement and (b) is not to be construed as an assignment of any patent or patent application.

Very truly yours,

[GRANTOR]

By: _____
Name: _____
Title: _____

Acknowledged and Accepted:

BANC OF CALIFORNIA, N.A., as Administrative Agent

By: _____
Name: _____
Title: _____

Exhibit C

EXHIBIT D

[FORM OF]

NOTICE OF
GRANT OF SECURITY INTEREST
IN TRADEMARKS

[United States Patent and Trademark Office] [Canadian Intellectual Property Office]

Ladies and Gentlemen:

Please be advised that pursuant to the Security and Pledge Agreement dated as of April 13, 2017 (as amended, modified, extended, restated, renewed, replaced, or supplemented from time to time, the "Agreement") and among the Grantors party thereto (each a "Grantor" and collectively, the "Grantors") and Banc of California, N.A., as administrative agent (the "Administrative Agent") for the Secured Parties referenced therein, the undersigned Grantor has granted a continuing security interest in and continuing lien upon the trademarks and trademark applications shown on Schedule 1, attached hereto, to the Administrative Agent for the ratable benefit of the Secured Parties.

The undersigned Grantor and the Administrative Agent, on behalf of the Secured Parties, hereby acknowledge and agree that the security interest in the foregoing trademarks and trademark applications (a) may only be terminated in accordance with the terms of the Agreement and (b) is not to be construed as an assignment of any trademark or trademark application.

Very truly yours,

[GRANTOR]

By: _____
Name: _____
Title: _____

Acknowledged and Accepted:

BANC OF CALIFORNIA, N.A., as Administrative Agent

By: _____
Name: _____
Title: _____

Exhibit D

UNCONDITIONAL GUARANTY

This UNCONDITIONAL GUARANTY (this “*Agreement*”) is entered into as of April 13, 2017, by **B. RILEY FINANCIAL, INC.**, a Delaware corporation (the “*Guarantor*”), in favor of **BANC OF CALIFORNIA, N.A.**, in its capacity as administrative agent (in such capacity, the “*Administrative Agent*”), for the Secured Parties (as defined in the Credit Agreement, hereinafter defined).

For and in consideration of all extensions of credit, loans and other financial accommodations provided to United Online, Inc., a Delaware corporation (“*Borrower*”), which loans will be made pursuant to a Credit Agreement among Borrower, the Secured Guarantors party thereto, the Administrative Agent and the Lenders party thereto, dated of even date herewith (as amended from time to time, and any and all modifications, extensions or renewals thereof, the “*Credit Agreement*”), Guarantor hereby unconditionally and irrevocably guarantees the prompt and complete payment of all amounts Borrower owes the Secured Parties arising under the Credit Agreement and the other Loan Documents and Borrower’s performance of the Credit Agreement and the other Loan Documents according to their terms. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them under the Credit Agreement.

SECTION 1 – GUARANTEE

1.1 If Borrower does not perform its obligations under the Loan Documents, Guarantor shall upon demand by Administrative Agent immediately pay all amounts due thereunder (including, without limitation, all principal, interest and fees) and satisfy all of Borrower’s payment obligations under the Loan Documents (“*Guarantor Obligations*”).

1.2 The obligations hereunder are independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or whether Borrower be joined in any such action or actions. This Agreement is a primary obligation of Guarantor, and not merely the creation of a surety relationship. Guarantor agrees that it is directly, jointly and severally liable with Borrower and any other Guarantor (as defined in the Credit Agreement) or guarantor of the Guarantor Obligations. Guarantor waives the benefit of any statute of limitations affecting its liability hereunder or the enforcement thereof. Guarantor’s liability under this Agreement is not conditioned or contingent upon the genuineness, validity, regularity or enforceability of the Loan Documents.

1.3 Guarantor authorizes Administrative Agent, without notice or demand and without affecting its liability hereunder, from time to time to (a) renew, extend or otherwise change the terms of the Loan Documents or any part thereof, (b) take security for the payment due under this Agreement or the Loan Documents, (c) exchange, enforce, waive or release any such security, and (d) apply any security and direct its sale as Administrative Agent, in its discretion, chooses.

1.4 Guarantor waives any right to require Administrative Agent to (a) proceed against Borrower, any other guarantor or any other Person; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other Person; or (c) pursue any other remedy in Administrative Agent's power whatsoever. Administrative Agent may, at its election, exercise, decline or fail to exercise, any right or remedy it may have against Borrower or any security held by Administrative Agent, including without limitation the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of Guarantor hereunder. Guarantor waives any defense arising by reason of any disability or other defense of Borrower or any other guarantor, or by reason of the cessation from any cause whatsoever of the liability of Borrower or any other guarantor. Guarantor waives any setoff, defense or counterclaim that Borrower may have against Administrative Agent, except for the defense of payment and performance in full of all amounts Borrower owes to the Secured Parties under the Credit Agreement and the other Loan Documents. Guarantor waives any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation or any other rights against Borrower. Until all of the amounts that Borrower owes to the Secured Parties (other than contingent indemnity obligations for which no claim has been asserted) have been paid in full, (d) Guarantor shall not have any right of subrogation or reimbursement for claims arising out of or in connection with this Agreement, (e) Guarantor shall not have any right of contribution or other rights against Borrower, (f) Guarantor waives any right to enforce any remedy that Administrative Agent now has or may hereafter have against Borrower, and (g) Guarantor waives all rights to participate in any security now or hereafter held by Administrative Agent. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor and notices of acceptance of this Agreement and of the existence, creation or incurrence of new or additional Indebtedness. Guarantor assumes the responsibility for being and keeping itself informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of any Indebtedness or nonperformance of any obligation of Borrower, warrants to Administrative Agent that it will keep so informed, and agrees that absent a request for particular information by Guarantor, Administrative Agent shall have no duty to advise Guarantor of information known to Administrative Agent regarding such condition or any such circumstances. Guarantor waives the benefits of California Civil Code sections 2809, 2810, 2819, 2845, 2847, 2848, 2849, 2850, 2899 and 3433.

1.5 Guarantor acknowledges that all or any portion of the Obligations may now or hereafter be secured by a Lien or Liens upon real property owned or leased by Borrower and evidenced by certain documents including, without limitation, deeds of trust and assignments of rents. Administrative Agent may, pursuant to the terms of said real property security documents and applicable law, foreclose under all or any portion of one or more of said Liens by means of judicial or nonjudicial sale or sales. Guarantor agrees that Administrative Agent may exercise whatever rights and remedies it may have with respect to said real property security, all without affecting the liability of Guarantor hereunder, except to the extent Administrative Agent realizes payment by such action or proceeding. No election to proceed in one form of action or against any party, or on any obligation shall constitute a waiver of Administrative Agent's right to proceed in any other form of action or against Guarantor or any other Person, or diminish the liability of Guarantor, or affect the right of Administrative Agent to proceed against Guarantor for any deficiency, except to the extent Administrative Agent realizes payment by such action, notwithstanding the effect of such action upon Guarantor's rights of subrogation, reimbursement or indemnity, if any, against Borrower, any other guarantor or any other Person. Without limiting the generality of the foregoing, Guarantor expressly waives all rights, benefits and defenses, if any, applicable or available to Guarantor under either California Code of Civil Procedure Sections 580a or 726, which provide, among other things, that the amount of any deficiency judgment which may be recovered following either a judicial or nonjudicial foreclosure sale is limited to the difference between the amount of any Indebtedness owed and the greater of the fair value of the security or the amount for which the security was actually sold. Without limiting the generality of the foregoing, Guarantor further expressly waives all rights, benefits and defenses, if any, applicable or available to Guarantor under either California Code of Civil Procedure Sections 580b, providing that no deficiency may be recovered on a real property purchase money obligation, or 580d, providing that no deficiency may be recovered on a note secured by a deed of trust on real property if the real property is sold under a power of sale contained in the deed of trust.

1.6 If Borrower becomes insolvent, is adjudicated bankrupt or files a petition for reorganization, arrangement, composition or similar relief under any present or future provision of the United States Bankruptcy Code or reorganization or insolvency laws of any applicable jurisdiction, or if such a petition is filed against Borrower, and in any such proceeding some or all of any Indebtedness or obligations under the Credit Agreement are terminated or rejected or any obligation of Borrower is modified or abrogated, or if Borrower's obligations are otherwise avoided for any reason, Guarantor agrees that Guarantor's liability hereunder shall not thereby be affected or modified and such liability shall continue in full force and effect as if no such action or proceeding had occurred. This Agreement shall continue to be effective or be reinstated, as the case may be, if any payment must be returned by Administrative Agent upon the insolvency, bankruptcy or reorganization of Borrower, Guarantor or any other guarantor or otherwise, as though such payment had not been made.

1.7 Any Indebtedness of Borrower now or hereafter held by Guarantor is hereby subordinated to any Indebtedness of Borrower to the Secured Parties; and such Indebtedness of Borrower to Guarantor shall be collected, enforced and received by Guarantor as trustee for Administrative Agent and be paid over to Administrative Agent on account of the Indebtedness of Borrower to Administrative Agent but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Agreement.

SECTION 2 – [INTENTIONALLY OMITTED]

SECTION 3 – [INTENTIONALLY OMITTED]

SECTION 4 – REPRESENTATIONS AND WARRANTIES

4.1 Guarantor hereby represents and warrants to Administrative Agent that:

(a) the execution, delivery and performance by Guarantor of this Agreement (i) does not contravene any Law or any contractual restriction binding on or affecting Guarantor or by which Guarantor's property may be affected; and (ii) does not require any authorization or approval or other action by, or any notice to or filing with, any Governmental Authority or any other Person under any indenture, mortgage, deed of trust, lease, agreement or other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, except such as have been obtained, made or waived.

(b) Guarantor has the corporate power to execute, deliver and perform this Agreement and the execution, delivery and performance of this Agreement has been duly authorized by all requisite action;

(c) this Agreement is a valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, except as the enforceability thereof may be subject to or limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting the rights of creditors generally;

(d) there is no action, suit or proceeding affecting Guarantor pending or threatened before any court, arbitrator, or Governmental Authority, domestic or foreign, which may have a material adverse effect on the ability of Guarantor to perform its obligations under this Agreement;

(e) Guarantor's obligations hereunder are not subject to any offset or defense against Administrative Agent or Borrower of any kind;

(f) Guarantor has established adequate means of obtaining from sources other than Administrative Agent and Lenders, on a continuing basis, financial and other information pertaining to Borrower's and each other Loan Party's, financial condition and the status of Borrower's performance of Obligations imposed by the Loan Documents, and Guarantor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder and neither Administrative Agent nor Lenders have made any representation to Guarantor as to any such matters;

(g) after the incurrence of Guarantor's obligations under this Agreement, the fair salable value of Guarantor's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Guarantor is not left with unreasonably small capital after the transactions in this Agreement or the other Loan Documents; and Guarantor is able to pay its debts (including trade debts) as they mature; and

(h) all representations and warranties contained in this Agreement are true at the time of Guarantor's execution of this Agreement, and shall continue to be true until Guarantor's obligations hereunder have been paid and performed in full. Guarantor expressly agrees that any misrepresentation or breach of any warranty whatsoever contained in this Agreement shall be deemed material.

SECTION 5 – [INTENTIONALLY OMITTED]

SECTION 6 – [INTENTIONALLY OMITTED]

SECTION 7 – MISCELLANEOUS

7.1 Guarantors agree to pay reasonable and documented out-of-pocket attorneys' fees and all other reasonable and documented out-of-pocket costs and expenses which may be incurred by Administrative Agent in the enforcement of this Agreement. No terms or provisions of this Agreement may be changed, waived, revoked or amended without Administrative Agent's prior written consent. Should any provision of this Agreement be determined by a court of competent jurisdiction to be unenforceable, all of the other provisions shall remain effective. This Agreement embodies the entire agreement between the parties hereto with respect to the matters set forth herein, and supersedes all prior agreements among the parties with respect to the matters set forth herein. No course of prior dealing among the parties, no usage of trade, and no parol or extrinsic evidence of any nature shall be used to supplement, modify or vary any of the terms hereof. Administrative Agent may assign this Agreement without in any way affecting Guarantors' liability under it. This Agreement shall inure to the benefit of Administrative Agent and its successors and assigns. This Agreement is in addition to the guaranties of any other guarantors of the Obligations.

7.2 THIS AGREEMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA.

7.3 GUARANTOR IRREVOCABLY AND UNCONDITIONALLY AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE ADMINISTRATIVE AGENT, ANY SECURED PARTY OR ANY RELATED PARTY OF THE FOREGOING IN ANY WAY RELATING TO THIS AGREEMENT OR THE TRANSACTIONS RELATING HERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF CALIFORNIA SITTING IN THE COUNTY OF LOS ANGELES AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF CALIFORNIA, AND ANY APPELLATE COURT FROM ANY THEREOF, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH CALIFORNIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT OR ANY SECURED PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST GUARANTOR IN THE COURTS OF ANY JURISDICTION.

7.4 GUARANTOR IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT IN ANY COURT REFERRED TO IN SECTION 7.3. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

7.5 EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 7.8 BELOW. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

7.6 EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN THE EVENT ANY LEGAL PROCEEDING IS FILED IN A COURT OF THE STATE OF CALIFORNIA (THE "COURT") BY OR AGAINST ANY PARTY HERETO IN CONNECTION WITH ANY CLAIM AND THE WAIVER SET FORTH ABOVE IS NOT ENFORCEABLE IN SUCH PROCEEDING, THE PARTIES HERETO AGREE AS FOLLOWS:

WITH THE EXCEPTION OF THE MATTERS SPECIFIED IN THE IMMEDIATELY SUCCEEDING PARAGRAPH BELOW, ANY CLAIM SHALL BE DETERMINED BY A GENERAL REFERENCE PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 638 THROUGH 645.1. THE PARTIES INTEND THIS GENERAL REFERENCE AGREEMENT TO BE SPECIFICALLY ENFORCEABLE. VENUE FOR THE REFERENCE PROCEEDING SHALL BE IN THE COUNTY OF LOS ANGELES, CALIFORNIA.

THE FOLLOWING MATTERS SHALL NOT BE SUBJECT TO A GENERAL REFERENCE PROCEEDING: (A) NON-JUDICIAL FORECLOSURE OF ANY SECURITY INTERESTS IN REAL OR PERSONAL PROPERTY, (B) EXERCISE OF SELF-HELP REMEDIES (INCLUDING SET-OFF OR RECOUPMENT), (C) APPOINTMENT OF A RECEIVER, AND (D) TEMPORARY, PROVISIONAL, OR ANCILLARY REMEDIES (INCLUDING WRITS OF ATTACHMENT, WRITS OF POSSESSION, TEMPORARY RESTRAINING ORDERS, OR PRELIMINARY INJUNCTIONS). THIS AGREEMENT DOES NOT LIMIT THE RIGHT OF ANY PARTY TO EXERCISE OR OPPOSE ANY OF THE RIGHTS AND REMEDIES DESCRIBED IN CLAUSES (A) - (D) AND ANY SUCH EXERCISE OR OPPOSITION DOES NOT WAIVE THE RIGHT OF ANY PARTY TO PARTICIPATE IN A REFERENCE PROCEEDING PURSUANT TO THIS AGREEMENT WITH RESPECT TO ANY OTHER MATTER.

UPON THE WRITTEN REQUEST OF ANY PARTY, THE PARTIES SHALL SELECT A SINGLE REFEREE, WHO SHALL BE A RETIRED JUDGE OR JUSTICE. IF THE PARTIES DO NOT AGREE UPON A REFEREE WITHIN 10 DAYS OF SUCH WRITTEN REQUEST, THEN, ANY PARTY SHALL HAVE THE RIGHT TO REQUEST THE COURT TO APPOINT A REFEREE PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 640(B). THE REFEREE SHALL BE APPOINTED TO SIT WITH ALL OF THE POWERS PROVIDED BY LAW. PENDING APPOINTMENT OF THE REFEREE, THE COURT SHALL HAVE THE POWER TO ISSUE TEMPORARY OR PROVISIONAL REMEDIES.

EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE REFEREE SHALL DETERMINE THE MANNER IN WHICH THE REFERENCE PROCEEDING IS CONDUCTED INCLUDING THE TIME AND PLACE OF HEARINGS, THE ORDER OF PRESENTATION OF EVIDENCE, AND ALL OTHER QUESTIONS THAT ARISE WITH RESPECT TO THE COURSE OF THE REFERENCE PROCEEDING. ALL PROCEEDINGS AND HEARINGS CONDUCTED BEFORE THE REFEREE, EXCEPT FOR TRIAL, SHALL BE CONDUCTED WITHOUT A COURT REPORTER, EXCEPT WHEN ANY PARTY SO REQUESTS A COURT REPORTER AND A TRANSCRIPT IS ORDERED, A COURT REPORTER SHALL BE USED AND THE REFEREE SHALL BE PROVIDED A COURTESY COPY OF THE TRANSCRIPT. THE PARTY MAKING SUCH REQUEST SHALL HAVE THE OBLIGATION TO ARRANGE FOR AND PAY THE COSTS OF THE COURT REPORTER, PROVIDED THAT SUCH COSTS, ALONG WITH THE REFEREE'S FEES, SHALL ULTIMATELY BE BORNE BY THE PARTY WHO DOES NOT PREVAIL, AS DETERMINED BY THE REFEREE.

THE REFEREE MAY REQUIRE ONE OR MORE PREHEARING CONFERENCES. THE PARTIES HERETO SHALL BE ENTITLED TO DISCOVERY, AND THE REFEREE SHALL OVERSEE DISCOVERY IN ACCORDANCE WITH THE RULES OF DISCOVERY, AND SHALL ENFORCE ALL DISCOVERY ORDERS IN THE SAME MANNER AS ANY TRIAL COURT JUDGE IN PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA.

THE REFEREE SHALL APPLY THE RULES OF EVIDENCE APPLICABLE TO PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA AND SHALL DETERMINE ALL ISSUES IN ACCORDANCE WITH CALIFORNIA SUBSTANTIVE AND PROCEDURAL LAW. THE REFEREE SHALL BE EMPOWERED TO ENTER EQUITABLE AS WELL AS LEGAL RELIEF AND RULE ON ANY MOTION WHICH WOULD BE AUTHORIZED IN A TRIAL, INCLUDING MOTIONS FOR DEFAULT JUDGMENT OR SUMMARY JUDGMENT. THE REFEREE SHALL REPORT HIS OR HER DECISION, WHICH REPORT SHALL ALSO INCLUDE FINDINGS OF FACT AND CONCLUSIONS OF LAW. THE REFEREE SHALL ISSUE A DECISION AND PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE, SECTION 644, THE REFEREE'S DECISION SHALL BE ENTERED BY THE COURT AS A JUDGMENT IN THE SAME MANNER AS IF THE ACTION HAD BEEN TRIED BY THE COURT. THE FINAL JUDGMENT OR ORDER FROM ANY APPEALABLE DECISION OR ORDER ENTERED BY THE REFEREE SHALL BE FULLY APPEALABLE AS IF IT HAS BEEN ENTERED BY THE COURT.

THE PARTIES RECOGNIZE AND AGREE THAT ALL CLAIMS RESOLVED IN A GENERAL REFERENCE PROCEEDING PURSUANT HERETO WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR OWN CHOICE, EACH PARTY HERETO KNOWINGLY AND VOLUNTARILY AND FOR THEIR MUTUAL BENEFIT AGREES THAT THIS REFERENCE PROVISION SHALL APPLY TO ANY DISPUTE BETWEEN THEM THAT ARISES OUT OF OR IS RELATED TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

7.7 This Agreement may be executed in counterpart signature pages, all of which taken together shall be deemed to be one original of this instrument. Delivery of an executed counterpart to this Agreement by facsimile or electronic mail shall be effective as a manually executed counterpart to this Agreement.

7.8 All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by fax transmission or e-mail transmission. Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by fax transmission or e-mail transmission shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient).

[Signatures on following page.]

IN WITNESS WHEREOF, the undersigned have executed this Unconditional Guaranty as of the day first set forth above.

B. RILEY FINANCIAL, INC.

a Delaware corporation

By: /s/ Phillip J. Ahn

Name: Phillip J. Ahn

Title: Chief Financial Officer and Chief Operating Officer

Guarantor's Address for Notices:

B. Riley Financial, Inc.

21255 Burbank Blvd., Suite 400

Woodland Hills, CA 91367

Attn: Phillip J. Ahn

Unconditional Guaranty

Attachment A

CONSULTING SERVICES AGREEMENT

THIS CONSULTING SERVICES AGREEMENT (“Agreement”) is entered into as of July 3rd, 2017, by and between Richard J. Hendrix (“Consultant”) and FBR Capital Markets & Co. (“FBRC”).

WHEREAS, FBRC wishes to retain the services of Consultant to assist FBRC in various tasks as set forth below (the “Consulting Services”), and Consultant wishes to provide such Services to FBRC.

NOW THEREFORE, in consideration of the promises and of the mutual covenants contained herein, the parties agree as follows:

1. Consulting Relationship. Beginning on July 5th, 2017 (the “Effective Date”) and during the term of this Agreement and under the direction of the Chief Executive Officer of FBRC (the “CEO”) or his designee(s), Consultant will serve as a retained consultant to the CEO, FBRC, and/or its executives and be reasonably available, on an as needed basis, to provide Services to the CEO, FBRC, and/or its executives. It is also contemplated that Consultant will continue to market FBRC’s investment banking services to potential clients with the sole and express purpose of FBRC obtaining the mandate from or being engaged by those clients (“Consulting Services”).

Consultant shall observe those policies and directives promulgated from time to time by the CEO and FBRC that are applicable to the Consultant’s role and duties, including, without limitation, FBRC’s Chinese Wall procedures and policies and procedures on the treatment and use of material, nonpublic information.

FBRC will maintain Consultant’s FINRA registrations for the Term of this Agreement.

2. Term of this Agreement. Unless terminated earlier under Section 6 of this Agreement, this Agreement shall be in full force and effect for the period July 5th, 2017 through July 4th 2018 (the “Term”).

3. Compensation.

(a) Consulting Fee: Consultant shall be paid \$50,000 per month (\$600,000 per annum) throughout the Term of this Agreement. All such compensation shall be payable monthly without deductions for any taxes, including federal income, social security, or state income taxes.

(b) Private Placement Payout: Consultant is also eligible to earn a payout of 3% of FBRC’s net fees received from any offering of equity securities pursuant to Rule 144A and/or Reg. D private placement that Consultant is primarily responsible for FBRC being engaged via a written engagement letter during the Term of this Agreement and for 90 days thereafter.

Attachment A

The payout percentage is calculated from the received fees, net of unreimbursed expenses, whether paid in cash, stock, warrants or other consideration, earned by FBRC in connection with the transaction. If the consideration paid to FBRC is in cash or in combination with a form other than cash (e.g., stock and warrants), Consultant's payout will be in like payment. Consultant will receive each full payout within 30 days of each Transaction closing without deductions for any taxes, including federal income, social security, or state income taxes. FBRC will report such income on IRS Form 1099.

You will have access to and be required to use your FBR email, or other email designated by FBRC, to conduct any business on behalf of FBRC and for any email communications with potential or actual clients.

FBRC will endeavor to provide you with reasonable resources to effectuate and successfully perform your Consulting Services, including access to a telephone for international and domestic investor calls, internet access, color copier and scanner access, access to conference call-in number, access to a conference room for investor, client and working group meetings, and access to all services of Ultramar TravelSync. FBRC shall pay or reimburse Consultant for all ordinary and reasonable out-of-pocket expenses actually incurred (and, in the case of reimbursement, paid) by Consultant during the Term of this Agreement in the performance of the Consulting Services under this Agreement, in accordance with FBRC's policies regarding such reimbursements as in effect from time to time. You must continue to adhere to the rules and guidelines detailed in FBRC's Travel and Entertainment Policy. All costs not reimbursed by a client and not deemed to be reasonably related to performing your Consulting Services will not be reimbursed by FBRC.

4. Indemnification. FBRC shall indemnify Consultant if he becomes a party to any proceeding, including a proceeding brought by a shareholder in the right of FBRC or brought by or on behalf of shareholders of the Company, against any liability incurred by him in connection with such proceeding, provided that the allegations or claims relate to activities performed as a Consultant and Consultant did not engage in gross negligence, bad faith, willful misconduct or a knowing violation of the criminal law or any federal or state securities law ("Excluded Conduct"). If a claim is made or is to be made against the Consultant, the Consultant shall promptly notify FBRC in writing of the same. FBRC, subject to any finding that Consultant engaged in any Excluded Conduct, will promptly reimburse Consultant for all reasonable expenses (including reasonable counsel fees and expenses) as they are incurred in connection with the investigation of, preparation for or defense arising from any threatened or pending claim. FBRC may elect to assume the defense thereof, with counsel reasonably satisfactory to Consultant. FBRC will not be liable to Consultant under the foregoing indemnification provision for any settlement by Consultant affected without the Consultant's prior written consent (not to be unreasonably withheld).

Consultant shall indemnify FBRC if FBRC becomes a party to any proceeding, against any liability incurred by the Company in connection with such proceeding. If such liability is found to have been caused by any Excluded Conduct in the performance of Consultant's duties under this Agreement.

5. Supervisory Policies. Consultant will be familiar with and comply with the FBRC's Employee Handbook, Code of Ethics and compliance policies, including, but not limited to the following: principles of conduct, information barriers, requirements concerning written pre-approval of outside business activities and private securities transactions.

Attachment A

Because of the nature of Consultant's Services, Consultant will be subject to FBRC's Employee Trading Policy. Consultant must obtain pre-trade approval through e-mail with a designated trading supervisor. Consultant must contact the staff in the Control Room of FBRC who can submit the trade request to PTA on behalf of the Consultant. Consultant may not place an order for a trade until the Control Room staff has verbally confirmed to Consultant that the request is approved. Consultant may make the request between 9:30 am and 4:00pm each trading day by contacting the Control Room.

6. Termination.

(a) Termination for Cause. FBRC may immediately terminate this Agreement and all of its obligations hereunder for "cause." Such termination shall be effected by notice delivered by FBRC to Consultant, and shall be effective as of the date of such notice. As used herein, "cause" shall mean (i) Consultant's failure to comply with the terms of this Agreement or the terms of Consultant's Severance Agreement dated July 3, 2017; or (ii) Consultant's willful or gross or repeated neglect of duties hereunder, or willful or gross or repeated misconduct in the performance of such duties.

(b) Termination Other Than For Cause. Consultant or FBRC may terminate this Agreement upon providing thirty (30) days prior written notice to the other party. If FBRC terminates this Agreement for reason other than Cause before expiration of the Term, Consultant shall be entitled to continue to receive the monthly consulting fee through the original Term of the Agreement and any Private Placement Payment that is earned and due but not yet paid pursuant to Section 3(b). Any consideration under this Section is in exchange for Consultant's execution and non-revocation of a release of claims by Consultant of FBRC including all of its related companies, affiliates, agents, and employees arising out of or in any way connected to this Consulting Agreement, its obligations and the termination thereof.

7. Confidential Information.

(a) Information Provided to Consultant by FBRC. Consultant acknowledges that retention by FBRC will, throughout the term of this Agreement, bring Consultant into close contact with many confidential business affairs of FBRC and its affiliates, including, but not limited to, confidential or proprietary information about key personnel, operational methods, computer systems, computer software and other intellectual property, business strategies, customer information, financial information, and other confidential or proprietary FBRC information or trade secrets not readily available to the public. Consultant further acknowledges that Consultant will use information provided by FBRC to perform the Services and that some of the services to be performed under this Agreement are of a special, unique, unusual, and intellectual character. In recognition of the foregoing, Consultant covenants and agrees that:

(i) Consultant will keep secret all confidential, trade secret or proprietary information of FBRC and its affiliates and will not disclose them to anyone outside of FBRC and its affiliates either during or after the term of this Agreement except with FBRC's prior written consent;

(ii) Consultant will promptly disclose to FBRC, and FBRC will own all right, title and interest in, all inventions, computer software, or other intellectual property (the "Intellectual Property") which Consultant conceives or develops during the course of this Agreement (and any extension thereof), excluding that which Consultant conceives or develops without the use of the time, resources, or facilities of FBRC or its affiliates and which does not relate to the Consultant's services or to the past, present or prospective activities of FBRC or its affiliates; and

(iii) upon termination of Consultant's engagement with FBRC, or at any other time FBRC may so request, Consultant will deliver promptly to FBRC all memoranda, notes, records, reports, electronic or computer media and other documents or items (and all copies thereof) relating to the business of FBRC or its affiliates that Consultant obtained while engaged by, or otherwise serving or acting on behalf of, FBRC or its affiliates, including without limitation materials relating to the Intellectual Property.

(b) Use of other Information. Consultant agrees that in providing services to FBRC, Consultant will not make use of any confidential or proprietary information that Consultant has received or has access to from entities other than FBRC and that, in performing Services pursuant to this Agreement, Consultant will not breach any non-disclosure agreement, confidentiality agreement or similar agreement to which Consultant may be subject.

(c) Specific Remedy. If Consultant breaches any of the provisions of paragraph 7(a) or (b), FBRC shall have the right and remedy to have such provisions specifically enforced by any court or other tribunal having jurisdiction, in addition to any other remedies available to FBRC, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to FBRC and its affiliates and that money damages will not provide an adequate remedy to FBRC and its affiliates.

8. Independence, Severability and Non-Exclusivity. Each of the rights and remedies enumerated in this Agreement shall be independent of the others and separately enforceable, and all of such rights and remedies shall be in addition to and not in lieu of any other rights and remedies available to FBRC or its affiliates under the law or in equity. If any of the provisions contained in this Agreement is hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of obligations, covenants, rights, or remedies herein, which shall be given full effect without regard to the invalid or unenforceable provision.

9. Assignment. This Agreement is a personal one, being entered into in reliance upon and in consideration of the skill and qualifications of Consultant. Consultant shall not assign or otherwise transfer the obligations incurred on his part under the terms of this Agreement without the prior written consent of FBRC. Any attempted assignment or transfer by Consultant of his obligations without such consent shall be wholly void.

Attachment A

10. Independent Contractor. It is expressly agreed that Consultant is acting as an independent contractor in performing services hereunder. FBRC shall carry no workers' compensation insurance or any health or accident insurance to cover Consultant, except that Specifically provided for under the Severance Agreement dated July 3rd 2017, FBRC shall not pay any contributions to Social Security, unemployment insurance, federal or state withholding taxes, nor provide any other contributions or benefits that might be expected in an employer-employee relationship, provided that FBRC shall provide Consultant with a Form 1099 at year-end.

11. Notices. All notices hereunder shall be given in writing by personal delivery, nationally recognized courier delivery or registered or certified mail addressed to either FBRC or B. Riley & Co. at either principal place of business and to Consultant at its address as then listed in FBRC's records.

12. General.

(a) Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Virginia. THE PARTIES HERETO WAIVE ALL RIGHTS TO A TRIAL BY JURY IN ANY DISPUTE ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

(b) Captions. The section headings contained herein are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(c) Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings, written or oral, between the parties.

(d) No Other Representations. No representation, promise or inducement has been made by any party hereto that is not embodied in this Agreement, and no party shall be bound by or liable for any alleged representation, promise or inducement not so set forth.

(e) Amendments; Waivers. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms or covenants hereof may be waived, only by a written instrument executed by all of the parties hereto, or in the case of a waiver, by the party waiving compliance. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the right of such party at a later time to enforce the same. No waiver by any party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Consulting Services Agreement as of the date first written above.

Attachment A

RICHARD J. HENDRIX

FOR FBR CAPITAL MARKETS & CO.

RICHARD J. HENDRIX

B. RILEY FINANCIAL INC

By: /s/ Richard J. Hendrix

By: /s/ Thomas J. Kelleher

Name: Thomas J. Kelleher

Title: _____

Date: 7/3/17

Date: 7/3/2017

SEVERANCE AGREEMENT AND GENERAL RELEASE

This AGREEMENT is made as of the 3rd day of July 2017, between Richard J. Hendrix (“Executive”) and FBR Capital Markets & Co. (“FBRC”) and B. Riley & Co., LLC, together with their parent, B. Riley Financial, Inc., (collectively “the Company”).

A. Reasons for Agreement. Executive is separating from his employment with the Company and Executive and the Company desire to resolve all existing and potential claims, known or unknown, in connection with his employment with the Company.

B. Termination. Executive’s employment with the Company is being terminated, effective July 3rd, 2017 (“Termination Date”). Nothing in this Agreement affects any rights or claims Executive may have to workers’ compensation benefits.

C. Agreement. Therefore, in consideration of the mutual promises and commitments herein, and contingent upon execution of this Agreement by both the Company and the Executive and non-revocation of the Agreement by the Executive, Executive and the Company agree as follows:

1. Special Severance Package. The Company agrees to provide Executive with the following benefits, which are referred to as the “special severance package”:

- (a) FBRC will pay Employee one payment of \$500,000.00, less withholdings and deductions, no later than three weeks after a fully executed Agreement has been received by the Company;
- (b) As provided for in Executive’s Employment Agreement, dated February 17, 2017, all unvested incentive equity or equity-based awards held by Executive, including any performance-based cash or equity-based awards that are not intended to qualify as “performance based compensation” under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), shall immediately vest and any timebased forfeiture restrictions on incentive equity or equity-based awards held by Executive shall immediately lapse; and unvested incentive equity or equity-based awards that are intended to qualify as “performance based compensation” under Section 162(m) of the Code shall vest and be earned only upon achievement of the applicable performance goals or objectives (but disregarding any requirement for the Executive’s continued employment); provided, however, that notwithstanding the foregoing, in the event of a Change in Control, the terms of the applicable plan and award agreements relating to a Change in Control shall apply if such provision is more beneficial to the Executive (with settlement of any such outstanding award that constitutes nonqualified deferred compensation subject to Section 409A of the Code to occur only if such Change in Control is a “change in control event” as defined in Treasury Regulation § 1.409A-3(i)(5));

- (c) FBRC and Executive shall enter into the Consulting Services Agreement, Attachment A to this Agreement, whereby Executive will perform certain Consulting Services on behalf of FBRC.
- (d) During the term of the Consulting Services Agreement and then for another 12 (twelve) months after termination thereof, FBRC will pay on Executive's behalf, for the Executive and his "qualified beneficiaries" (as defined under COBRA), the full amount of health insurance premiums under COBRA guidelines under the same terms as in effect for similarly situated active employees. For the portion of time, if any, that the Executive is no longer eligible for continued coverage under COBRA, FBRC shall reimburse the health insurance premiums incurred by the Executive under a private health insurance plan that provides substantially similar benefits for the Executive and his qualified beneficiaries and is reasonably acceptable to FBRC. Any reimbursement of premiums is subject to the Executive's providing FBRC with evidence of continuing coverage under any such private plan. Notwithstanding the foregoing, FBRC shall in no event be required to provide or reimburse the cost of any health care benefits after such time as the Executive becomes entitled to receive group health benefits from another employer's health care plan.
- (e) Executive agrees to pay outstanding balance on corporate American Express Card by July 15, 2017. If this amount is not paid by said date, Executive agrees that balance will be deducted from the payment outlined in (a) above.

2. Restrictive Covenants. Notwithstanding the foregoing, Executive will be subject to restrictive covenants, detailed below, while he is performing services pursuant to his Consulting Agreement detailed in Attachment A to this Agreement and for a period of 12 months after the Consulting Services Agreement is terminated.

- (a) Non-Solicitation of Clients. During the period Executive is performing Consulting Services and for a period of 12 months after the Consulting Services Agreement is terminated, Executive shall not, directly or indirectly, recruit, solicit or otherwise induce or influence any proprietor, partner, shareholder, member, director, manager, officer, employee, agent, joint venture, or any other person that (i) has a business relationship with the Company and with whom Executive had access to proprietary information about or had contact with in connection with Executive's employment or in connection with Executive's Consulting Services, or (ii) had a business relationship with the Company at any time within the twelve-month period preceding the termination of Consulting Services and with whom Executive had access to proprietary information about or had contact with in connection with Executive's employment or Consulting Services, to discontinue, reduce or modify such business relationship with the Company. A "business relationship" is not limited to any person or entity with which the Company has a contractual relationship, but also includes, for purposes of this Agreement, any person or entity with which anyone at the Company has had substantial contact with for purposes of securing a contractual relationship with such person or entity.

- (b) Non-Solicitation of Employees. During the period Executive is performing Consulting Services and for a period of 12 months after the Consulting Services Agreement is terminated, Executive agrees that Executive will not, directly or indirectly, employ, solicit for employment as an employee or engagement as an independent contractor the services of any person who is then an employee of the Company. Further, during such period, Executive shall not take any action that could reasonably be expected to have the effect of encouraging or inducing any employee, representative, officer or director of the Company or any of its affiliates to cease their relationship with the Company or any of its affiliates for any reason.

3. General Release. In consideration of the special severance package, Executive waives, releases and forever acquits and discharges FBR and its affiliates, principals, directors, officers, Executives and representatives, past, present and future, and each of them from any and all claims, known or unknown, which Executive has ever had or which Executive has now, including, but not limited to, any claims of wrongful discharge, breach of contract, tort claims, any discrimination or other claims under Title VII of the Civil Rights Act of 1964, as amended, the Executive Retirement Income Security Act, the Fair Labor Standards Act, or any other federal, state or local law relating to employment (including without limitation all claims arising under laws or regulations prohibiting employment discrimination based upon age, race, sex, religion, handicap, national origin, or any other protected characteristics), including Executive benefits, severance pay, bonuses, vacation pay or the termination of employment, or any other claims arising out of or relating to Executive's employment, including any claims based on Executive's Employment Agreement, dated February 17, 2017 or the termination of Executive's employment, with the Company.

Executive also agrees that Executive is waiving any and all rights or claims that Executive may have under the Age Discrimination in Employment Act ("ADEA"). Executive agrees that Executive's waiver of any ADEA claims is knowing and voluntary, and understands that Executive is forever releasing all such claims. Executive may, if desired, have a period of forty-five (45) calendar days to consider whether or not to sign this Agreement. Executive acknowledges that, prior to the execution of this Agreement, Executive has had the opportunity to consult with an attorney concerning Executive's release of claims under the ADEA. Executive may revoke this Agreement within a period of seven (7) calendar days following the execution of this Agreement.

Executive agrees that Executive's waiver of these claims is knowing and voluntary, and understands that Executive is forever releasing such claims. Executive understands that Executive's waiver does not apply to any rights or claims that may arise after the effective date of this Agreement. In addition, Executive understands that Executive's waiver does not apply to: (i) any right to indemnification under the Company's certificate of incorporation and/or bylaws; (ii) any rights to continued coverage under the Company's directors and officers liability insurance; (iii) any rights to the receipt of employee benefits (other than severance benefits) which vested on or prior to the date of this waiver; and (iv) the right to compensation, benefits, consideration and rights provided to Executive under this Agreement or under the Executive's Consulting Service Agreement.

Executive acknowledges that Executive has signed this Agreement in exchange for adequate and valuable consideration that is in addition to anything of value that Executive is entitled to receive from FBR absent this Agreement.

Executive acknowledges that, prior to the execution of this Agreement, Executive has had the opportunity to consult with an attorney concerning this release of claims.

4. **No Admission.** The Company has entered into this Agreement solely for the purpose of maintaining an amicable and cooperative relationship with Executive and in recognition of Executive's service with the Company. Executive agrees that this Agreement is not to be construed as an admission of liability of any kind by the Company or its affiliates, principals, directors, officers, Executives and representatives.

5. **Non-Disparagement.** Executive agrees that Executive will not, directly or indirectly, engage in any conduct that involves the maligning or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, remarks, and/or negative reports or comments) which are disparaging, deleterious, or damaging to the integrity, reputation, or good will of the Company, or any of its officers or any of its Executives. Executive understands and agrees that any such statements or remarks will result in the termination of the Company's obligations under this Agreement pursuant to Section 11 of this Agreement.

The Company agrees that it will not, directly or indirectly, engage in any actions or conduct that involve the publishing of (or which may cause the publishing of) any written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, remarks, and/or negative reports or comments) which malign or are disparaging, deleterious, or damaging to the integrity, reputation, or good will of Executive; provided, however, that the Company's agreement to this non-disparagement clause shall be limited to official statements issued by the Company as a corporate entity, and statements of officers of the Company in their official capacity as a representative of the Company.

6. **Cooperation.** Executive agrees that Executive will cooperate with and assist the Company in the defense of any legal or administrative action(s) against the Company and will not require the Company to obtain valid legal process, but rather will be reasonably available to the Company for interviews, depositions and trial testimony if requested by the Company. Out of pocket costs, such as transportation will be reimbursed by the Company. In the event that Executive is requested by the Company to appear as a witness in any action against the Company, the Company agrees to promptly reimburse Executive for Executive's time in appearing and preparing to appear as a witness, not to exceed \$250/hour.

7. The Company Documents and Information.

(a) Upon the termination of Executive's Consulting Service Agreement, Executive will immediately (i) return to the Company all documents, records, notebooks, computer diskettes and tapes and anything else containing the Company's Confidential Information (as defined below), (ii) delete from any non-Company computer or other electronic storage medium under Executive's control, any and all of the Company's proprietary or Confidential Information; (iii) not access, interfere with or otherwise interact with any of the Company's information technology, or communications systems.

(b) After the date hereof, and notwithstanding Executive's termination, Executive will continue to maintain as confidential and not disclose to any other person any of the Company's Confidential Information.

(c) Executive represents and warrants that Executive has not transferred and will not transfer by any means to anyone any of the Company's Confidential Information, except as was permitted in the course of Executive's employment by the Company and/or is permitted in the course of performing Consulting Services for legitimate business purposes.

(d) As used herein, "Confidential Information" shall mean any information which the Company has sought to maintain as non-public information that pertains to the Company's business and the business of its affiliates (as used in this paragraph, "the Company" shall be deemed to include all of its affiliates) including, without limitation: (i) information disclosed by the Company to Executive and information developed or learned by Executive during the course of or as a result of employment with the Company; and (ii) information, agreements and other documents concerning the Company's methods of doing business; the Company's actual and potential clients, transactions and suppliers (including the Company's terms, conditions and other business arrangements with them); client or potential client or transaction lists; advertising, marketing and business plans and strategies; profit margins; goals, objectives and projections; compilations, analyses and projections regarding the Company or any of the Company's clients or potential clients or their businesses; files; trade secrets; salary, staffing, compensation, employment and severance information; financial information; existing and planned product lines; client and other information received by the Company subject to nondisclosure or confidentiality agreements; and "know-how," techniques or any technical information not of a published nature. Confidential Information does not include information that is or becomes, generally available to the public, other than as a direct result of a breach of this Agreement.

(e) Executive understands and agrees that any material breach of this provision is a material breach of this Agreement and will result in the termination of the Company's obligations under this Agreement pursuant to Section 11 of this Agreement.

8. Severability. If any portions of this Agreement are void or deemed unenforceable for any reason, the remaining portions shall survive and remain in effect.

9. Voluntary Agreement. Executive acknowledges that Executive has read the terms of this Agreement and understands that while it provides certain benefits to the Executive, it also has the effect of releasing and waiving rights available to the Executive. Executive acknowledges that Executive has been given a reasonable period of time within which to consider this Agreement, and that Executive has had the opportunity to consult with counsel prior to executing this Agreement. Executive acknowledges that Executive is executing this Agreement voluntarily, free from duress, undue pressure or influence, harassment or intimidation. Executive acknowledges that the Agreement represents an important legal and binding Agreement and Executive enters it voluntarily and with full knowledge of its intent and terms. Executive further acknowledges that this Agreement is clear and unambiguous.

10. Severance Benefits Contingent. Executive and the Company acknowledge that receipt of any severance benefits is expressly contingent upon Executive signing this Agreement and not materially breaching any of the terms of this Agreement. Executive expressly acknowledges that Executive's failure to sign this Agreement precludes him from receiving any severance benefits.

11. Material Breach by Executive. In the event of any material breach by Executive of any of the terms of this Agreement, the Company shall, immediately and without notice, be relieved of any further obligation hereunder, without prejudice to the Company's other rights and remedies. Executive further acknowledges and agrees that money damages would not be a sufficient remedy for any material breach of this Agreement, and that the Company will be entitled to specific performance and injunctive relief as non-exclusive remedies for any such material breach, in addition to the Company's other remedies available at law or in and equity.

12. Entire Agreement. This Agreement constitutes and contains the entire agreement and understanding concerning the Executive's employment and separation from employment and the other subject matters addressed herein between the parties. This agreement supersedes and replaces all prior agreements, whether written or oral, concerning the subject matters hereof. Executive acknowledges that there are no understandings, promises or representations other than those specifically set forth in this Agreement.

13. Indemnity Regarding Assignment of Claims. Executive represents and warrants that Executive has not heretofore assigned or transferred, or purported to assign or transfer, to any person, entity, or individual whatsoever any of the released claims. Executive agrees to indemnify and hold harmless the Company and its agents, heirs, executors, and assigns against any claim, demand, debt, obligation, liability, cost, expense, right of action, or cause of action based on, arising out of, or in connection with any such transfer or assignment or purported transfer or assignment.

14. Captions. Any captions to the paragraphs of this Agreement are solely for the convenience of the parties; neither they nor the title of the Agreement are to be construed as in any way as modifying the provisions themselves.

15. Governing Law; Waiver of Jury Trial. This Agreement shall be governed by the laws of the Commonwealth of Virginia applicable to contracts made and to be performed therein. Any dispute arising hereunder shall be brought in a court in Virginia. THE PARTIES WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY SUCH DISPUTE.

The parties acknowledge that they have read the foregoing Agreement, understand its contents, and accept and agree to the provisions it contains and hereby executes it voluntarily and with full understanding of its consequences.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES
A RELEASE OF KNOWN AND UNKNOWN CLAIMS

RICHARD J. HENDRIX

B. RILEY FINANCIAL INC

By: /s/ Richard J. Hendrix
Name: Richard J. Hendrix

By: /s/ Thomas J. Kelleher
Name: Thomas J. Kelleher

Title: _____
Date: 7/3/17

Title: _____
Date: 7/3/2017

FBR CAPITAL MARKETS & CO.

B. RILEY & CO., LLC

By: /s/ Thomas J. Kelleher
Name: Thomas J. Kelleher

By: /s/ Thomas J. Kelleher
Name: Thomas J. Kelleher

Title: _____
Date: 7/3/2017

Title: _____
Date: 7/3/2017

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryant R. Riley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of B. Riley Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ BRYANT R. RILEY

Bryant R. Riley

Chairman and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Phillip J. Ahn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of B. Riley Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ PHILLIP J. AHN

Phillip J. Ahn

Chief Financial Officer and Chief Operating Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of B. Riley Financial, Inc. (the "Company") for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryant R. Riley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ BRYANT R. RILEY

Bryant R. Riley

Chairman and Chief Executive Officer

August 8, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of B. Riley Financial, Inc. (the "Company") for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip J. Ahn, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PHILLIP J. AHN

Phillip J. Ahn

Chief Financial Officer and Chief Operating Officer

August 8, 2017
