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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
Or

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

For the transition period from to

Commission File Number 000-54010

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

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

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

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

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

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

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

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

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

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

B. Riley Financial, Inc.

Quarterly Report on Form 10-Q

For The Quarter Ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except share data)

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

The accompanying notes are an integral part of these condensed

consolidated
financial
statements.

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B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(Dollars in thousands)

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Equity (Deficit)

(Unaudited)

(Dollars in thousands)

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

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

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

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B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

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

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

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

NOTE 1—ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

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

Reverse Stock Split

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

Private Placement

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

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

Registration Statement

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Basis of Presentation

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

(b) Use of Estimates

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

(c) Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

(d) Direct Cost of Services

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

(e) Concentration of Risk

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

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

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

(f) Income Taxes

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

(g) Cash and Cash Equivalents

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

(h) Restricted Cash

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

(i) *Accounts Receivable*

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

(j) *Advances Against Customer Contracts*

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

(k) *Goods Held for Sale or Auction*

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

(l) *Property and Equipment*

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

(m) *Securities Owned and Securities Sold Not Yet Purchased*

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

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

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

(n) Fair Value Measurements

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

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

	Financial Assets Measured at Fair Value on a Recurring Basis at September 30, 2015, Using			
	Fair Value at September 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$6,872	$6,846	$ —	$ 26
Mutual funds	3,013	3,013	—	—
Corporate bonds	501	501	—	—

Partnership interests and other securities	7,162	—	5,996	1,166
Total assets measured at fair value	$17,548	$10,360	$ 5,996	$ 1,192
Liabilities:				
Securities sold not yet purchased				
Common stocks	$5,395	$5,395	$ —	$ —
Corporate bonds	1,086	—		