B. Riley Financial, Inc.
Form 10-Q
August 05, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x
(Do not check if a smaller reporting company)

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

As of August 3, 2016, there were 19,043,072 shares of the registrant's common stock, par value $0.0001 per share, outstanding.

B. Riley Financial, Inc.

Quarterly Report on Form 10-Q

For The Quarter Ended June 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 48,123	$ 30,012
Restricted cash	12,108	51
Securities owned, at fair value	24,644	25,543
Accounts receivable, net	7,997	9,472
Due from related parties	2,255	409
Advances against customer contracts	5,609	5,013
Goods held for sale or auction	36	37
Prepaid expenses and other current assets	8,507	2,415
Total current assets	109,279	72,952
Property and equipment, net	475	592
Goodwill	34,528	34,528
Other intangible assets, net	4,545	4,768
Deferred income taxes	18,722	18,992
Other assets	1,989	588
Total assets	$ 169,538	$ 132,420
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 1,084	$ 1,123
Accrued payroll and related expenses	3,084	7,178
Accrued value added tax	34	1,785
Accrued expenses and other liabilities	5,335	5,806
Auction and liquidation proceeds payable	15,959	672
Due to related parties	—	166
Securities sold not yet purchased	5,932	713
Mandatorily redeemable noncontrolling interests	2,512	2,994

Revolving credit facilities	—	272
Contingent consideration- current portion	1,196	1,241
Total current liabilities	35,136	21,950
Contingent consideration, net of current portion	—	1,150
Total liabilities	35,136	23,100
Commitments and contingencies		
B. Riley Financial, Inc. stockholders' equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value; 40,000,000 shares authorized; 19,043,072 and 16,448,119 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	2	2
Additional paid-in capital	140,555	116,799
Retained earnings (deficit)	(6,158)	(6,305)
Accumulated other comprehensive loss	(1,075)	(1,058)
Total B. Riley Financial, Inc. stockholders' equity	133,324	109,438
Noncontrolling interests	1,078	(118)
Total equity	134,402	109,320
Total liabilities and equity	$ 169,538	$ 132,420

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 Operations

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Services and fees	$20,261	$39,442	$40,205	$61,026
Sale of goods	—	6,019	2	10,466
Total revenues	20,261	45,461	40,207	71,492
Operating expenses:				
Direct cost of services	5,560	8,539	12,243	15,317
Cost of goods sold	—	2,181	2	3,071
Selling, general and administrative expenses (including transaction costs of $905 and $922 for the three and six months ended June 30, 2016, respectively)	14,521	20,072	26,117	32,973
Total operating expenses	20,081	30,792	38,362	51,361
Operating income	180	14,669	1,845	20,131
Other income (expense):				
Interest income	3	3	6	5
Interest expense	(275)	(418)	(407)	(671)
(Loss) income before income taxes	(92)	14,254	1,444	19,465
Benefit (provision) for income taxes	65	(5,685)	(101)	(7,460)
Net (loss) income	(27)	8,569	1,343	12,005
Net income (loss) attributable to noncontrolling interests	74	(95)	1,196	659
Net (loss) income attributable to B. Riley Financial, Inc.	$(101)	$8,664	$147	$11,346
Basic (loss) income per share	$(0.01)	$0.53	$0.01	$0.70
Diluted (loss) income per share	$(0.01)	$0.53	$0.01	$0.70
Weighted average basic shares outstanding	17,935,254	16,237,860	17,212,716	16,177,824
Weighted average diluted shares outstanding	17,935,254	16,310,829	17,547,073	16,236,748

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	$ (27)	$ 8,569	$ 1,343	$ 12,005
Other comprehensive (loss) income:				
Change in cumulative translation adjustment	(82)	71	(17)	(8)
Other comprehensive (loss) income, net of tax	(82)	71	(17)	(8)
Total comprehensive (loss) income	(109)	8,640	1,326	11,997
Comprehensive income (loss) attributable to noncontrolling interests	74	(95)	1,196	659
Comprehensive (loss) income attributable to B. Riley Financial, Inc.	$ (183)	$ 8,735	$ 130	$ 11,338

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

B. RILEY FINANCIAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Equity

(Unaudited)

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	(Deficit)	Loss	Interests	Equity
Balance, January 1, 2015	—	$ —	15,968,607	$ 2	$ 110,598	$ (12,891)	$ (648)	$ 18	$ 97,079
Issuance of common stock for acquisition of MK Capital, LLC and contigent equity consideration on February 2, 2015			333,333	—	4,657				4,657
Issuance of common stock			3,296	—	35				35
Share based payments					381				381
Dividends paid						(978)			(978)
Net income for the six months ended June 30, 2015						11,346		659	12,005
Foreign currency translation adjustment							(8)		(8)
Balance, June 30, 2015	—	$ —	16,305,236	$ 2	$ 115,671	$ (2,523)	$ (656)	$ 677	$ 113,171
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 - contigent equity consideration on February 2, 2016			166,667	—					-
Vesting of restricted stock			7,306	—					-
Offering of common stock, net of offering			2,420,980		22,759				22,759

expenses									
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

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)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$1,343	$12,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	399	421
Provision for credit losses	(3)	255
Share based compensation	997	416
Effect of foreign currency on operations	–	5
Non-cash interest	54	73
Deferred income taxes	271	5,499
Income allocated to mandatorily redeemable noncontrolling interests and redeemable noncontrolling interests	960	1,116
Change in operating assets and liabilities:		
Accounts receivable and advances against customer contracts	1,087	(439)
Securities owned	899	4,273
Goods held for sale or auction	1	52
Prepaid expenses and other assets	(7,646)	(1,414)
Accounts payable and accrued expenses	(5,998)	9,218
Due from related party	(1,935)	(1,310)
Securities sold, not yet purchased	5,219	7,311
Auction and liquidation proceeds payable	14,667	(665)
Net cash provided by operating activities	10,315	36,816
Cash flows from investing activities:		
Acquisition of MK Capital, net of cash acquired $45	–	(2,451)
Purchases of property and equipment	(58)	(171)
Proceeds from sale of property and equipment	–	4
Increase in restricted cash	(12,026)	7,155
Net cash (used in) provided by investing activities	(12,084)	4,537
Cash flows from financing activities:		
Repayment of asset based credit facility	–	(18,506)
Proceeds from (repayment of) revolving line of credit	(272)	71
Proceeds from note payable - related party	–	4,500
Repayment of from note payable - related party	–	(4,500)
Payment of contingent consideration	(1,250)	–
Proceeds from issuance of common stock	22,999	–

Offerring costs from issuance of common stock	(240)	
Dividends paid	–	(978)
Distribution to noncontrolling interests	(1,441)	(1,421)
Net cash provided by (used in) financing activities	19,796	(20,834)
Increase in cash and cash equivalents	18,027	20,519
Effect of foreign currency on cash	84	9
Net increase in cash and cash equivalents	18,111	20,528
Cash and cash equivalents, beginning of period	30,012	21,600
Cash and cash equivalents, end of period	$48,123	$42,128
Supplemental disclosures:		
Interest paid	$252	$413
Taxes paid	$409	$695

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, Canada, and Europe.

The Company has three operating segments: (i) Capital Markets, through which the Company provides investment banking, corporate finance, restructuring, research, sales and trading and wealth management services to corporate, institutional and high net worth clients; (ii) Auction and Liquidation, through which the Company provides auction and liquidation services to help clients dispose of assets that include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property; and (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.

Public Offering of Common Stock

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of B. Riley Financial, Inc. and its wholly-owned and majority-owned subsidiaries. The condensed consolidated financial statements also include the accounts of Great American Global Partners, LLC which is controlled by the Company as a result of its ownership of a 50% member interest, appointment of two of the three executive officers and significant influence over the funding of operations. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on March 28, 2016. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

(b) Use of Estimates

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

(c) ***Revenue Recognition***

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

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

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

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

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

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

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying consolidated statements of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled $1,825 and $2,041 for the three months ended June 30, 2016 and 2015, respectively, and $4,843 and $3,989 for the six months ended June 30, 2016 and 2015, respectively.

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

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

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

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs which totaled $707 and $753 for the three months ended June 30, 2016 and 2015, respectively, and $1,386 and $1,422 for the six months ended June 30, 2016 and 2015, respectively.

In the normal course of business, the Company will enter into collaborative arrangements with other merchandise liquidators to collaboratively execute auction and liquidation contracts. The Company's collaborative arrangements specifically include contractual agreements with other liquidation agents in which the Company and such other liquidation agents actively participate in the performance of the liquidation services and are exposed to the risks and rewards of the liquidation engagement. The Company's participation in collaborative arrangements including its rights and obligations under each collaborative arrangement can vary. Revenues from collaborative arrangements are recorded net based on the proceeds received from the liquidation engagement. Amounts paid to participants in the collaborative arrangements are reported separately as direct costs of revenues. Revenue from collaborative arrangements in which the Company is not the majority participant is recorded net based on the Company's share of proceeds received. There were $12,508 of revenues and $1,099 of direct cost of services subject to collaborative arrangements during the three months ended June 30, 2015 and there were $14,009 of revenues and $1,293 of direct cost of services subject to collaborative arrangements during the six months ended June 30, 2015. There were no revenues and direct cost of services subject to collaborative arrangements during the three and six months ended June 30, 2016.

(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 liquidation engagement represented 25.3% of total revenues during the three months ended June 30, 2015 and 18.1% of total revenues during the six months ended June 30, 2015.

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

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

(f) Share-Based Compensation

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

(g) Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the condensed consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit 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.

(h) Cash and Cash Equivalents

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

(i) Restricted Cash

As of June 30, 2016, restricted cash included $11,648 of cash collateral for letters of credit, $410 of cash collateral for foreign exchange contracts and $50 cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary. As of December 31, 2015, restricted cash included $51 of cash segregated in a special reserve bank account for the benefit of customers related to our broker dealer subsidiary.

(j) Accounts Receivable

Accounts receivable represents amounts due from the Company's auction and liquidation, valuation and appraisal, 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 six months ended June 30, 2016 and 2015 are included in Note 3.

(k) Advances Against Customer Contracts

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

(l) Goods Held for Sale or Auction

Goods held for sale or auction are stated at the lower of cost, determined by the specific-identification method, or market. At June 30, 2016 and December 31, 2015, goods held for sale or auction includes aircraft parts and other with a carrying value of $36 and $37 which includes a lower of cost or market adjustment of $1,331 and $1,330, respectively.

(m) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation and amortization expense was $84 and $110 for the three months ended June 30, 2016 and 2015, respectively, and $175 and $213 for the six months ended June 30, 2016 and 2015, respectively.

(n) Securities Owned and Securities Sold Not Yet Purchased

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

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

	June 30, 2016	December 31, 2015
Securities owned		
Common stocks	$19,538	$ 17,586
Corporate bonds	1,938	941
Partnership interests	3,168	7,016
	$24,644	$ 25,543
Securities sold not yet purchased		
Common stocks	$5,188	$ -
Corporate bonds	744	713
	$5,932	$ 713

(o) Fair Value Measurements

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

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

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

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

	Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016, Using			
	Fair Value at June 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$ 19,538	$ 19,295	$ -	$ 243
Corporate bonds	1,938	-	1,369	569
Partnership interests	3,168	-	861	2,307
Total assets measured at fair value	$ 24,644	$ 19,295	$ 2,230	$ 3,119
Liabilities:				
Securities sold not yet purchased				
Common stocks	$ 5,188	$ 5,188	$ -	$ -
Corporate bonds	744	-	744	-
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	2,111	-	-	2,111
Contingent consideration	1,196	-	-	1,196
Total liabilities measured at fair value	$ 9,239	$ 5,188	$ 744	$ 3,307

	Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015, Using			
	Fair Value at December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities owned				
Common stocks	$ 17,586	$ 17,296	$ -	$ 290
Corporate bonds	941	-	941	-
Partnership interests	7,016	-	5,250	1,766
Total assets measured at fair value	$ 25,543	$ 17,296	$ 6,191	$ 2,056

Liabilities:				
Securities sold not yet purchased Corporate bonds	$ 713	$ -	$ 713	$ -
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,330	$ -	$ -	$ 2,330
Contingent consideration	$ 2,391	$ -	$ -	$ 2,391
Total liabilities measured at fair value	$ 5,434	$ -	$ 713	$ 4,721

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

Level 3 Balance at	Level 3 Changes During the Year	Level 3