Report Date: February 14, 2023
Company: B. Riley Financial, Inc.
Ticker: RILY US
Industry: Financial Services
Stock Price (USD): $43.76
Market Cap (USD, Millions): $1,250.7

WOLFPACK RESEARCH

B. Riley Financial: Skeletons in the Closet

Has RILY Tacitly Admitted to a Breach of Covenant?

In its Q3 2022 10-Q, B. Riley Financial (Nasdaq: RILY) abruptly stopped assuring investors that it was in compliance with the covenants of two credit agreements – its $380 million Nomura credit agreement, as well as its $75 million BRPAC credit agreement.[1] For both of these loans, Q3 2022 was the first time that they failed to assure investors that it was in full compliance with its covenants. RILY did not forget, or change policy, since it still reassured investors in Q3 that it was still in full compliance with its Asset Backed credit agreement.

Nomura Credit Agreement **RILY Q2 2022 10-Q compared to RILY Q3 2022 10-Q**

On June 23, 2021, the Company, and its wholly owned subsidiaries, BR Financial Holdings, LLC (the "Primary Guarantor"), and BR Advisory & Investments, LLC (the "Borrower") entered into a credit agreement (as amended, the "Credit Agreement") with Nomura Corporate Funding Americas, LLC, as administrative agent (the "Administrative Agent"), and Wells Fargo Bank, N.A., as collateral agent (the "Collateral Agent"), for a four-year $200,000 secured term loan credit facility (the "Term Loan Facility") and a four-year $80,000 secured revolving loan credit facility (the "Revolving Credit Facility").

On December 17, 2021 (the "Amendment Date"), the Company, the Primary Guarantor, and the Borrower entered into a Second Incremental Amendment to Credit Agreement, pursuant to which the Borrower established an incremental facility in an aggregate principal amount of $100,000 (the "Incremental Facility" and the incremental term loans made thereunder, the "Incremental Term Loans") of secured term loans under the Credit Agreement on terms identical to those applicable to the Term Loan Facility. The Borrower borrowed the full amount of the Incremental Term Loans on the Amendment Date. The Term Loan Facility, Revolving Credit Facility, and Incremental Facility (together, the "Credit Facilities"), mature on June 23, 2025, subject to acceleration or prepayment.

Eurodollar loans under the Credit Facilities accrue interest at the Eurodollar Rate plus an applicable margin of 4.50%. Base rate loans accrue interest at the Base Rate plus an applicable margin of 3.50%. In addition to paying interest on outstanding borrowings under the Revolving Credit Facility, the Company is required to pay a quarterly commitment fee based on the unused portion of the Revolving Credit Facility, which is determined by the average utilization of the facility for the immediately preceding fiscal quarter.

Subject to certain eligibility requirements, the assets of certain subsidiaries of the Company that hold credit assets, private equity assets, and public equity assets are placed into a borrowing base, which serves to limit the borrowings under the Credit Facilities. If borrowings under the facilities exceed the borrowing base, the Company is obligated to prepay the loans in an aggregate amount equal to such excess. The Credit Agreement contains certain representations and warranties (subject to certain agreed qualifications) that are customary for financings of this kind.

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The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit the Company's, the Primary Guarantor's, the Borrower's, and the Borrower's subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to enter into restrictive agreements, to make certain investments, loans, advances, guarantees and acquisitions, to prepay certain indebtedness and to pay dividends or to make other distributions or redemptions/repurchases in respect of their respective equity interests. In addition, the Credit Agreement contains a financial covenant that requires the Company to maintain operating earnings before interest, taxes, depreciation, and amortization ("EBITDA") of at least $135,000 and the Primary Guarantor to maintain net asset value of at least $1,100,000. The Credit Agreement contains customary events of default, including with respect to a failure to make payments under the credit facilities, cross-default, certain bankruptcy and insolvency events and customary change of control events.

Commencing on September 30, 2022, the Term Loan Facility and Incremental Facility will amortize in equal quarterly installments of 1.25% of the aggregate principal amount of the term loan as of the closing date with the remaining balance due at final maturity. Quarterly installments from September 30, 2022 to March 31, 2025 are in the amount of $3,750 per quarter.

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As of June September 30, 2022 and December 31, 2021, the outstanding balances on the Term Loan Facility and Incremental Facility were $293,676290,448 (net of unamortized debt issuance costs of $6,3245,802) and $292,650 (net of unamortized debt issuance costs of $7,350), respectively. Interest on the term loan during the three months ended June September 30, 2022 and 2021 was $4,7355,720 (including amortization of deferred debt issuance costs of $516523) and $2362,720 (including amortization of deferred debt issuance costs of $30350), respectively. Interest on the term loan during the six nine months ended June September 30, 2022 and 2021 was $8,83714,557 (including amortization of deferred debt issuance costs of $1,0251,548) and $2362,956 (including amortization of deferred debt issuance costs of $30380), respectively. The interest rate on the term loan as of June September 30, 2022 and December 31, 2021 was 6.658.10% and 4.72%, respectively.

The Company had an outstanding balance of $74,700 and $80,000 under the Revolving Credit Facility as of June September 30, 2022 and December 31, 2021. 2021, respectively. Interest on the revolving facility during the three and six months ended June September 30, 2022 and 2021 was $1,2271,410 (including unused commitment fee of $6 and amortization of deferred financing costs of $145146) and $2,327790 (including unused commitment fee of $58 and amortization of deferred financing costs of $288146), respectively. The Interest on the revolving facility during the nine months ended September 30, 2022 and 2021 was $3,737 (including unused commitment fee on the revolving facility for the three and six months ended June 30, 2021 was of $306 (including and amortization of deferred financing costs of $13434) and $820 (including unused commitment fee of $76 and amortization of deferred financing costs of $159). The interest rate on the revolving facility as of June September 30, 2022 and December 31, 2021 was 6.137.64% and 4.67%, respectively.

The Company is in compliance with all financial covenants in the Credit Agreement as of June 30, 2022.

RILY's position has worsened significantly since Q3 2022, as our analysis indicates its total cash and investments, net of debt, have fallen by another $350 million due to the collapse of FAZE.

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[1] Document Comparison: RILY 2Q22 10-Q vs. RILY 3Q22 10-Q

One of RILY's Borrowers, Sorrento Therapeutics, Surprises Investors with a Bankruptcy Announcement

Sorrento Therapeutics (SRNE) filed for chapter 11 bankruptcy on Monday, February 13. On September 30, 2022, SRNE took out a $41 million bridge loan, due January 31, 2023. It is not clear yet whether SRNE repaid this loan prior to filing for bankruptcy, but we think it is doubtful that SRNE repaid this loan in less than two weeks before filing for bankruptcy.

In addition to the loan, RILY purchased ~$6.5 million worth of SRNE shares in Q4 for a price of about $1.25 per share; the value of this investment has cratered.

The interesting thing about SRNE's bankruptcy is that it was not even listed as the loan most likely to enter default in RILY's portfolio.

Table 1 - RILY Identifiable Loans Outstanding

Company	Ticker	Amt. Outstanding	Date of Loan	Maturity Date	Security	1-Yr Default Risk (BBG)
Harrow Health Inc	HROW	$ 100,000,000	12/14/2022	12/14/2025	Secured	N/A
Harrow Health Inc	HROW	$ 40,250,000	12/20/2022	12/31/2027	Unsecured	N/A
Exela Technologies Inc	XELA	$ 55,800,000	12/7/2021	6/10/2023	Secured	35.90%
Exela Technologies Inc	XELA	$ 20,000,000	3/31/2022	6/10/2023	Secured	35.90%
Greenridge Generation Holdings Inc	GREE	$ 9,000,000	8/10/2022	6/1/2023	Secured	24.51%
Sorrento Therapeutics Inc	SRNE	$ 41,670,000	9/30/2022	1/31/2023	Secured	7.00%
Core Scientific Inc	CORZQ	$ 41,800,000	4/7/2022	12/7/2022	Unsecured	100.00%
Core Scientific Inc	CORZQ	$ 70,000,000	1/30/2023	DIP	Secured	100.00%
Cadiz Inc	CDZI	$ 50,000,000	7/2/2021	7/2/2024	Secured	5.30%
The Arena Group Holdings Inc	AREN	$ 98,690,753	12/15/2022	12/31/2023	Secured	8.27%
Total		**$ 527,210,753**				

That dubious honor is held by Exela Technologies (XELA) which owes RILY $75 million. XELA has until next week to make up for a late interest payment on January 19th. XELA's TTM losses are $125 million a year, and the stock trades at $.06 cents because RILY authorized an open ATM in May 2022 for $250 million. Back when XELA was at the loft price of $0.27 cents, the company anticipated selling 950 million shares.[2]

Some cursory research shows that there are many retail investors betting big on a rapid recovery by XELA, and these investors are confused as to who is selling the stock. We think this is a textbook case of how unscrupulous actors like RILY can exploit retail investors.

It has only been a brief period since we published our last report, yet things have gotten worse for CORZQ and GREE. Part of CORZQ's budget for regaining solvency involves increasing its hosting revenues seven-fold by the end of June, yet the company's hosting EH/S declined according to CORZQ's latest press release, from 7 EH/s to 4.1 EH/s. GREE's shares have fallen to $0.64 cents, shortly after RILY agreed to purchase $1 million worth of shares at $0.75 cents per share.

Insiders Are Not Likely to Make Dividend Cuts Until the Music Stops

RILY appears to be out of compliance with two of its major credit agreements, which raises a lot of questions as to how it was able to add new debt and fund its dividend. If its creditors have been giving it some forbearance, we expect that mercy to wear very thin in the coming weeks, especially if SRNE's bankruptcy results in more losses to its loan book.

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[2] XELA, 424B5, S-2, 5/23/2022

In our opinion, RILY would have already cut its dividend if it was not for Bryant Riley's ownership of 20% of the stock. But he is not the only major player at RILY, one of the biggest players at RILY appears to be a mysterious man named Dan Asher.

Who is Daniel Asher?

While his name does not appear on the list of RILY's top shareholders, Daniel Asher is actually RILY's third largest shareholder (at 8.65% of shares outstanding as of February 9, 2023). He does not appear in the top shareholders list because he controls his shares through three entities that do appear on the list, to which he is either a 50% owner (Equitec Proprietary Markets LLC), the Managing Member (AFOB FIP RILY LLC), or *"holds shared investment and voting power over the [shares], pursuant to an* ***informal, unwritten agreement****"* (DJ Fund Investments LLC).[3]

RILY US Equity | 25) Export | Settings | Security Ownershi

B. RILEY FINANCIAL INC CUSIP 05580M10

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transactions | 6) Options | 7) Issuer Debt

Search Name Default - No Search Selected | 21) Save Search | 22) Delete Search | 23) Refine Search

Text Search | Holder Group All Holders | Investment Manager View

24) Color Legend Shrs Out 28.6M % Out 93.58 Float/Shrs Out 56.41 SI % Out 9.64 | Edit Columns

	Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	Mkt Val
			All	All				
1.	Riley Bryant Richard		Form 4		6,900,344	24.14	150,000	281.4MLN
2.	BlackRock Inc		13G		2,839,073	9.93	0	115.78MLN
3.	Subin Neil S		Proxy		1,819,030	6.36	0	74.18MLN
4.	Vanguard Group Inc/The		ULT-AGG		1,166,326	4.08	24,135	47.56MLN
5.	Equitec Proprietary Markets LLC		13D		981,905	3.44	-211,536	40.04MLN
6.	Kelleher Thomas John		Form 4		968,832	3.39	150,000	39.51MLN
7.	DJ FUND INVESTMENTS LLC		13D		825,000	2.89	0	33.64MLN
8.	AFOB FIP RILY LLC		13D		730,800	2.56	0	29.8MLN

Mr. Asher's control over DJ Fund Investments, LLC through what we would characterize as a handshake deal is very unusual. Our analysis, in which we searched all EDGAR 13D filings over the last ten years for a combination of "informal" and "unwritten" resulted in no similar cases.[4]

Mr. Asher's shares, including those controlled through the handshake deal, has consistently remained around 10% of shares outstanding since it was first reported as an 11.1% stake in a July 2016 SC 13D.[5] Owners of 10% or more of a company's outstanding shares are subject to Section 16 of the Exchange Act, and are generally referred to as "insiders" who must report their transactions in a company's securities to the SEC within two business days on Forms 3, 4 or 5.

It appears that for the last five years, Mr. Asher has preferred to stay out of the limelight by keeping his holdings of the company's stock below 10% as a rule. The exception proves the rule. In a 13D filing from May 17, 2022, his reported stake exceeded 10% of shares outstanding – he controlled 10.06% of RILY's shares according to a 13D filing on that date:[6]

Item 5. Interest in Securities of Issuer.

(a) DJ Fund's total beneficial ownership amounts to 825,000 shares of Common Stock, constituting 2.95% of the outstanding shares of Common Stock of the Issuer.

(b) Mr. Asher's total beneficial ownership amounts to 2,808,603 shares of Common Stock, constituting 10.06% of the outstanding shares of Common Stock of the Issuer.

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[3] RILY SC 13D filed 02/09/2023 by DJ Fund Investments, LLC

[4] Search here, the other results are false positives triggered by boilerplate language in exhibits for Schedule 13 D.

[5] RILY SC 13D filed 07/12/2016 by DJ Fund Investments, LLC

[6] RILY SC 13D filed 05/17/2022 by DJ Fund Investments, LLC

In less than a week, Mr. Asher sold RILY stock in multiple transactions and a filed a new SC 13D on May 25, 2022, showing 9.86% ownership.[7]

Mr. Asher is not just a large shareholder, he and his firm Equitec Proprietary Markets, LLC appear to have a checkered history, according to reports from FINRA's BrokerCheck system:

Daniel Asher (CRD#: 1645627) is not currently registered with FINRA. However, his BrokerCheck report shows 13 final regulatory actions against him in his career.

Broker Qualifications

This broker is not currently registered.

This broker has passed:

- 0 Principal/Supervisory Exams
- 1 General Industry/Product Exam
- 0 State Securities Law Exams

Registration History

This broker was previously registered with the following securities firm(s):

B **EQUITEC PROPRIETARY MARKETS, LLC**
CRD# 113728
CHICAGO, IL
04/2011 - 12/2017

Disclosure Events

All individuals registered to sell securities or provide investment advice are required to disclose customer complaints and arbitrations, regulatory actions, employment terminations, bankruptcy filings, and criminal or civil judicial proceedings.

Are there events disclosed about this broker? **Yes**

The following types of disclosures have been reported:

Type	Count
Regulatory Event	13

Equitec Propriety Markets LLC (CRD#: 113728/SEC#: 8-53363) appears to have had its registration terminated by the SEC on February 24, 2018 after 18 regulatory violations according to its BrokerCheck report.

EQUITEC PROPRIETARY MARKETS, LLC
CRD# 113728
SEC# 8-53363

Main Office Location
111 W. JACKSON
20TH FL.OOR
CHICAGO, IL 60604

Mailing Address
111 W. JACKSON
20TH FLOOR
CHICAGO, IL 60604

Business Telephone Number
312 692-5000

Report Summary for this Firm

FINRA

This report summary provides an overview of the brokerage firm. Additional information for this firm can be found in the detailed report.

Firm Profile

This firm is classified as a limited liability company.

This firm was formed in Illinois on 03/29/2001.

Its fiscal year ends in December.

Firm History

Information relating to the brokerage firm's history such as other business names and successions (e.g., mergers, acquisitions) can be found in the detailed report.

Firm Operations

This brokerage firm is no longer registered with FINRA or a national securities exchange.

Disclosure Events

Brokerage firms are required to disclose certain criminal matters, regulatory actions, civil judicial proceedings and financial matters in which the firm or one of its control affiliates has been involved.

Are there events disclosed about this firm? **Yes**

The following types of disclosures have been reported:

Type	Count
Regulatory Event	18

These regulatory actions frequently concerned allegations of improper risk management and procedures around the trading of options.

[7] RILY SC 13D filed 05/25/2022 by DJ Fund Investments, LLC

Did Bryant Riley and Daniel Asher Collude to Help RILY Acquire National Holdings?

By late 2020, RILY had engaged in numerous attempts to purchase NHLD over a six-year period but had failed to close the deal. NHLD's subsidiary, National Securities Corp. had a national salesforce of ~700 brokers (~1/3 of which had been penalized by regulators) which could ostensibly help RILY distribute the debt and equity deals it underwrote for microcap companies, or even for itself. We believe Bryant Riley saw this acquisition as a means to gain a large set of wealth management clients who could then buy RILY's proprietary products, such as its Baby Bonds.

RILY already owned ~45% of National in 2020, and the CEO of National was apparently motivated to make a deal because he wanted to ensure that $784,000 he had incurred in legal fees responding to an SEC subpoena would be reimbursed.[8] However, talks to acquire the remaining stake had apparently stalled due to the equity compensation plan put into place for the management team, which supposedly acted like a poison pill defense against any possible takeover.

On August 26,[9] Bryant Riley sent National an e-mail stating that National's poison pill provisions made it impossible for RILY to go forward with a proposal to purchase the company. Instead, he stated that he would either sell his shares in National or wait for the standstill agreement to expire (which would allow RILY to put its own people on the board and remove the poison pill).

This communication was made on August 26th, but the filing was not made public on EDGAR until the next day, **August 27th, 2020**. Mr. Asher began buying NHLD stock in large quantities **the same day**. By September 17, Mr. Asher filed a 13D showing he owned 19.55% of NHLD's shares:[10]

D. Mr. Asher

(a) As the President of Oakmont and the 50% owner of Equitec, Mr. Asher may be deemed to beneficially own the (i) 1,298,032 shares of Common Stock owned by Sphinx and (ii) 1,358,418 shares of Common Stock owned by Equitec.

Percentage: Approximately 19.55%

Nature of Transaction	Amount of Securities Purchased/(Sold)	Price Per Share ($)	Date of Purchase/Sale
	Equitec Proprietary Markets, LLC		
Purchase of Common Stock	48,467	2.2958	08/27/2020
Purchase of Common Stock	5,997	2.2865	08/28/2020
Purchase of Common Stock	3,755	2.1800	08/31/2020
Purchase of Common Stock	2,512	2.1900	09/01/2020
Purchase of Common Stock	800	2.2100	09/02/2020
Purchase of Common Stock	1,830	2.2000	09/04/2020

On September 15th, before his SC 13D was made public, Mr. Asher apparently wrote the board of National a letter, that called for, amongst other things, changes to management's compensation that would likely destroy the poison pill, improving RILY's negotiating position.[11]

[8] Richard Frank v. National Holdings, Statement of Facts
[9] NHLD SC 13D/A, Exhibit 1, by RILY on 8/27/2020
[10] NHLD SC 13D filed by Daniel Asher on 09/17/2020
[11] Richard Frank v. National Holdings, Statement of Facts

After the board discussed this letter, but prior to Mr. Asher making these sentiments public by filing a SC 13D, Bryant Riley and the CEO of national reopened negotiations.[12] In that conversation, Bryant Riley apparently claimed that his decision to terminate his offer had been based on a misunderstanding, and that previous terms discussed were generally acceptable.

Under these new circumstances, now that a clear majority of shares were held by Bryant Riley and his ally, Dan Asher, the senior management for National came back to the table and eventually negotiated a final deal.

It appears to us that Mr. Asher's campaign was coordinated to break up a logjam in the negotiations and put pressure on senior management to cave to RILY's demands. However, according to RILY, this is not what happened. In correspondence with the SEC, RILY had the following exchange:[13]

> ***4. We note the various references to Mr. Asher in the disclosure. Please confirm in your response letter that no agreement existed or exists between BRF and Mr. Asher with respect to the Offer or the negotiations leading up to it, or, if such an agreement did exist or does exist, please disclose that in the filing.***
>
> *Response: The Filing Persons acknowledge the Staff's comment and confirm that no agreement existed or exists between BRF and Mr. Asher with respect to the Offer or the negotiations leading up to it.*

Maybe RILY's response was truthful, maybe it wasn't. But it sure is handy to have wealthy friends who are willing to work on a handshake basis.

In our view, the timing of Mr. Asher's purchase of NHLD's shares and timing of the letter he sent to NHLD's board was either coordinated by Bryant Riley or National's CEO, or a case of extremely good fortune.

Shortly thereafter, Mr. Asher's timing would be impeccable once again. He made large purchases of NHLD stock on **December 8 and December 9, 2020,** between \$2.63 and \$2.70 per share, bringing his stake to 3,007,762 shares, or 22.14%.[14]

D. Mr. Asher

(a) As the President of Oakmont and the 50% owner of Equitec, Mr. Asher may be deemed to beneficially own the (i) 1,298,032 shares of Common Stock owned by Sphinx and (ii) 1,709,730 shares of Common Stock owned by Equitec.

Percentage: Approximately 22.14%

(b)
1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 3,007,762
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 3,007,762

Nature of Transaction	Amount of Securities Purchased/(Sold)	Price per Share (\$)	Date of Purchase/Sale
Equitec Proprietary Markets, LLC			
Purchase of Common Stock	20,769	2.6905	11/17/2020
Purchase of Common Stock	119,541	2.6233	12/08/2020
Purchase of Common Stock	17,313	2.7040	12/09/2020

[12] Ibid
[13] RILY SEC Correspondence, 2/9/2021 (question 4)
[14] NHLD SC 13D/A, filed 12/08/2020 by Dan Asher

On **December 10, 2020**, NHLD's CEO announced in a board meeting, for which Bryant Riley was apparently present, that National held shares in Palantir and Airbnb, which recently went public and saw their stock prices soar after their IPOs, which would result in significant fees relative to National's market cap. This resulted in a $3.25 per share bid from RILY with indemnification and a new contract for National's CEO.[15]

Shares already owned by RILY or NHLD's officers were excluded from the tender offer, which required 70% of non-excluded shares to be tendered to approve the merger. That left 4,934,502 non-excluded shares, of which 3,007,762 were held by Asher (~61%). According to an 8-K filed by NHLD on February 25, 2021, 70.01% of shares were tendered at $3.25 per share, satisfying the merger agreement and closing the deal for RILY, as well as a quick profit of at least 30% for Asher:[16]

> The Offer expired at 12:00 midnight, New York City time, on February 25, 2021 (one minute after 11:59 P.M., New York City time, on February 24, 2021) (such time and date, the "Expiration Date"). Computershare Trust Company, N.A., in its capacity as depositary for the Offer, advised Merger Sub that, as of the Expiration Date, 4,934,502 Shares (excluding Shares (i) with respect to which Notices of Guaranteed Delivery were delivered and (ii) tendered by the Excluded Holders (as defined below)) were validly tendered and not withdrawn pursuant to the Offer, which represented approximately 70.01% the Shares outstanding at the Expiration Date that were not held by Parent, any of its subsidiaries, directors, or executive officers or the current Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of the Company (collectively, the "Excluded Holders"). All of the conditions to the Offer, including the Minimum Tender Condition (as defined in the Merger Agreement), were satisfied or waived, and on February 25, 2021, Merger Sub irrevocably accepted for payment all Shares that were validly tendered and not withdrawn.

RILY clearly denied any coordination between Mr. Asher and any members of management, but we are skeptical. It appears to us that Daniel Asher received inside information regarding acquisition negotiations between B. Riley and National from Bryant Riley and National's former CEO, Michael Mullen, and acted on that information to purchase enough NHLD shares to singlehandedly decide the shareholders' vote on the acquisition and make a tidy profit.

In the Aftermath of National, RILY Pushed Its Baby Bonds for Its Financing

One of the main reasons RILY wanted to purchase National was that it came with a large set of wealth management clients who could be offered RILY's proprietary wealth products.

One of the main difficulties that RILY has had with the wealth management business has been that they have let go a substantial number of the brokers who used to work at National, and the clients they worked with have left as well, causing RILY's AUM to fall from $30 billion to $25 billion.[17] When management was asked about this development on the earnings call, management's explanation for this high churn has been a difference in philosophy when it comes to pushing RILY's proprietary products onto its clients.

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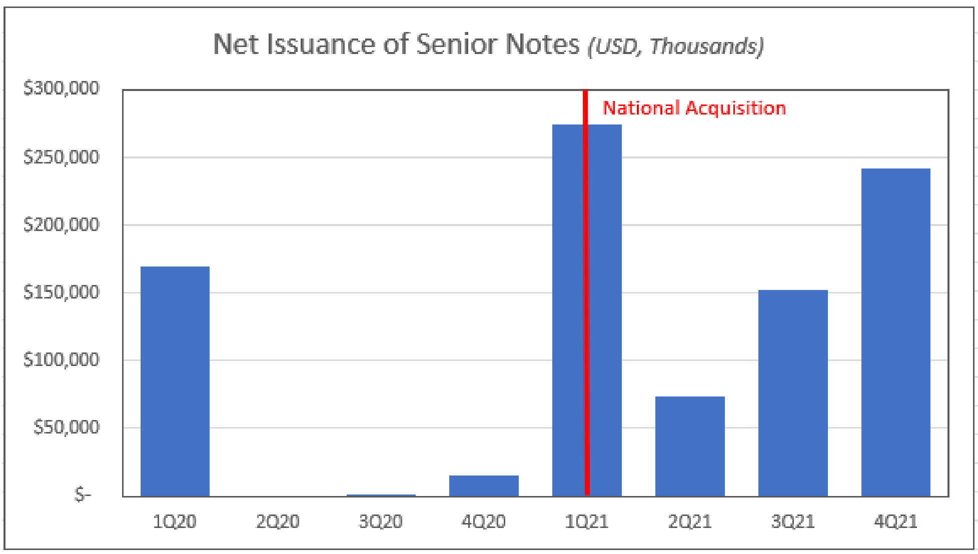
[15] Richard Frank v. National Holdings, Statement of Facts
[16] NHLD 8-K filed February 25, 2021
[17] Q3 2022 Earnings Call, Transcript via Bloomberg L.P.

A - Phillip Ahn {BIO 7098490 <GO>}

Up and better. We took -- we made some I think bold decisions to get the right people in place and managers that we didn't think aligned with our philosophy or were -- it didn't make sense for us. We made some bold decisions there. So our assets are -- are down, our brokers are down, but we are really excited about the quality of the Wealth Management Group, the alignment they have with us, the value that they bring as we look through distribution and other opportunities to push through proprietary products that we think will be really exciting to those clients. So we -- we made some decisions based on the environment and based on having that acquisition of National for quite a while and we're really excited about the team.

These proprietary products naturally include RILY's IPO offerings, which feature a lot of SPACs and reads to us like a wall of shame.

More critically, we believe that one these key proprietary products are RILY's own Baby Bonds, which have been foisted on ordinary retail investors. Since the purchase of National, RILY has been able to effectively sell its baby bonds at a much higher volume.



It appears to us that RILY has been using the billions it has in assets under management like a personal piggybank by selling its baby bonds to retail wealth management clients. As we discussed in our last report, if RILY defaults on its debt, these baby bond holders will likely take a steep haircut because they do not have the same protections that other creditors get. In fact, our analysis indicates that they do not even get the benefit of cross-default provisions.

The Targus and Deal Raises Additional Questions

RILY acquired Targus in Q3 paying $250 million for a business that reportedly does over $400 million in annual revenue. The CEO of Targus was a board member of RILY's before the purchase, and he stepped down from the board after the purchase.

However, the most peculiar part of the deal was the fact that RILY was not at all consistent in its descriptions of how it paid for the deal.

In its press release, it said the transaction included *"$85.5 million of bank financing, $114 million of seller financing, and B. Riley Bonds."*

> B. Riley has acquired Targus in a transaction valued at approximately $250 million on an enterprise value basis, which represents a multiple of approximately 5.2x Adjusted EBITDA for the trailing twelve-month period ending June 2022. Targus generated revenues of approximately $415 million for the same trailing twelve-month period. Financing for the transaction included approximately $85.5 million of bank financing, and $114 million of seller financing and B. Riley bonds.

In its 8-K filing with the SEC, the company said its consideration consisted of *"a combination of cash, 6.75% senior notes due 2024 (i.e., Baby Bonds), and shares of common stock of the company."*

> **Item 7.01. Regulation FD Disclosure.**
>
> On October 18, 2022, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Targus Cayman Holdco Limited ("Targus"), the sellers identified therein (the "Sellers"), and the other parties thereto, pursuant to which the Company acquired from the Sellers on October 18, 2022 all of the issued and outstanding shares of Targus in a transaction with an enterprise value of approximately $250 million for consideration consisting of a combination of cash, 6.75% senior notes due 2024 and shares of common stock of the Company. On October 19, 2022, the Company and Targus jointly issued a press release announcing the transaction. A copy of that press release is furnished as Exhibit 99.1 hereto and is incorporated herein by reference.

How will this transaction be described in the 10-K? We don't know, but we are interested to see which version of events is disclosed as they are entirely different, not simple differences in verbiage.

RILY's (Non) Response to Our Report

RILY has not offered any official response to our report, instead some of its insiders have purchased stock. The insiders who filed form 4's purchased 168,000 shares for ~$6.5 million since our first report was published.

We don't think this is a big vote of confidence considering these same insiders paid themselves well over $7 million in dividends at the end of November. Bryant Riley alone received ~$25 million in dividends in 2022.

This recent purchase of stock by insiders also is not hitting the pocketbook too hard for these insiders because RILY's executives also just received $23.4 million (based on a $40/share price) in Restricted Stock Units on Friday.

If RILY would like to respond to our report, we and other investors have a few questions management can answer:

Is RILY in full compliance with its Nomura and BRPAC credit agreements?

Does RILY still have an outstanding $41 million loan to SRNE?

Does XELA still owe $75 million, and does RILY believe it will be repaid the full outstanding amount?

Why won't RILY disclose the details of its loan book to investors now that we have drawn attention to it? What does RILY have to hide?

If RILY has violated the covenants of its Nomura and BRPAC Credit Agreements, what kind of recovery rate can Baby Bond holders expect?

Is the dividend safe? If so, how exactly will the Q1 2023 dividend be funded?

Conclusion

This is a firm that is constantly taking advantage of retail investors. Whether that means selling their wealth management clients their own toxic bonds, or by backing the dilutive issuance of something like a billion shares for a dying microcap like XELA after having sold shares of its stock to the public at highly inflated prices.

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