

**Report Date:** March 1, 2024  
**Company:** B. Riley Financial  
**Ticker:** RILY US  
**Industry:** Financial Services  
**Stock Price (USD):** \$18.33  
**Market Cap (USD, Millions):** \$560.6M



## **4Q23 Earnings: Remembering Everything B. Riley Wants Investors to Forget**

For most companies, any one of the announcements RILY had to make in its Q4 2023 earnings press release and investor call would have been disastrous in and of itself. A few obvious examples from yesterday evening's release:

- The 10-K will not be filed on time for the second year in a row.
- Riley declined to comment when asked if Marcum would sign off on the 2023 audit.
- Reviewing the company's web of transactions with a yet to be indicted co-conspirator in a \$400 million Ponzi scheme is the main reason the 10-K could not be filed on time.
- The company retained Moelis to explore "strategic alternatives" for the business.
- The financials presented in the press release are not only terrible, but they're also **unaudited**.
- 50% dividend cut, Q4 loss of \$70 million, or (\$2.32) per share, adjusted EBITDA loss of 23 million in the quarter.
- \$71 million of impairment charges attributable to a related party acquisition management was gushing about last year, which has unsurprisingly been a total disaster.

For almost any other company we've ever seen, just one of these announcements would have sent the stock tumbling. But B. Riley isn't any other company – it's B. Riley.

So, despite all of the terrible news from last night's earnings release, we don't think the things RILY did talk about are the most important things to consider.

It's the things that happened at the company in 2023 that **weren't mentioned** yesterday that investors need not forget about. *That's why they weren't mentioned.*

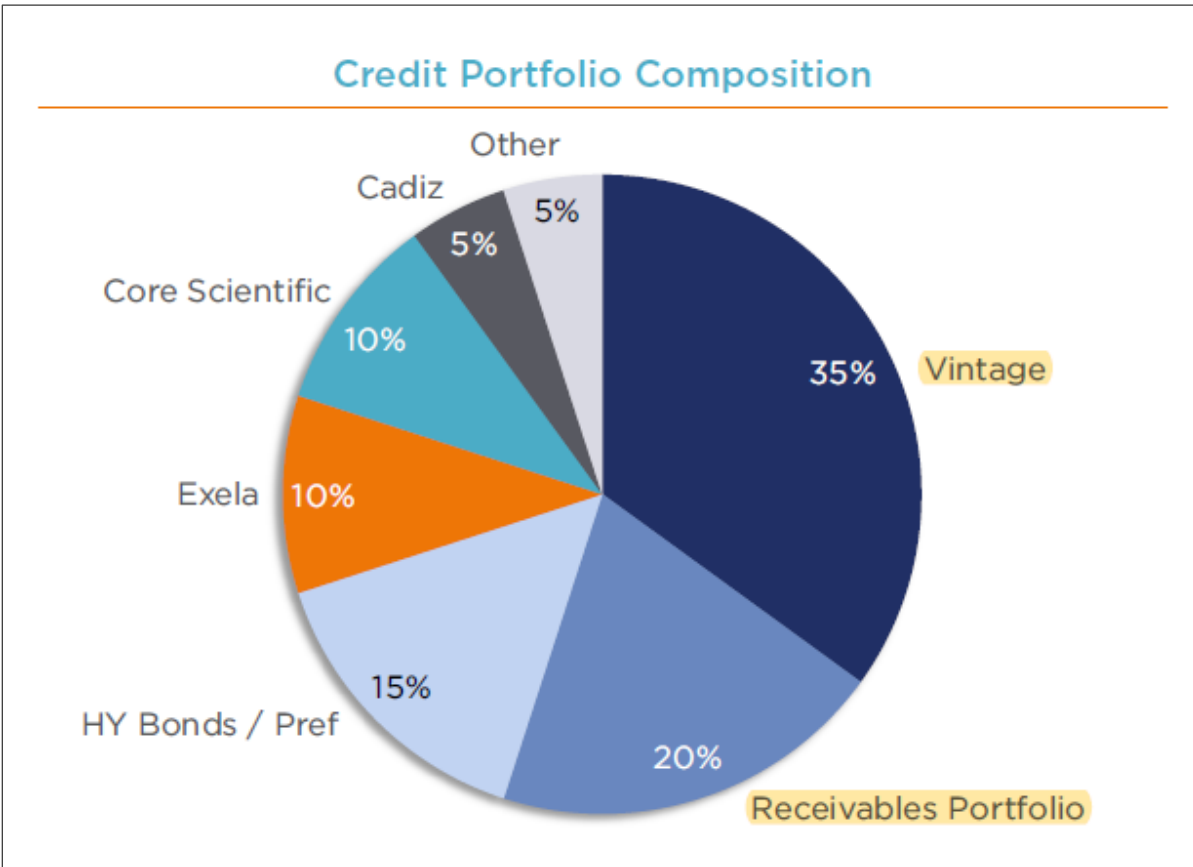
So, we decided to compile a list of 10 of most absurd things that happened at B. Riley in 2023 that we believe investors should not only remember, but ask serious questions about:

### **1. 55% of RILY's Loan Book was a \$201 million Loan to Vintage (aka Brian Kahn):**

We can't imagine a more awkward Investor Day moment than when RILY revealed that **55% of its entire loan book was related to either Brian Kahn personally (via Vintage, secured by FRG shares) or FRG (via Badcock receivables).**

This is in addition to having just made a \$280 million equity investment in FRG itself. This came a month after the prophecy indictment, and seemed to be the turning point when investors realized just how interconnected Kahn and Riley really are:

<b>Vintage</b>	Vintage and Brian Kahn has been a profitable relationship for the firm, most notably via the original FRG transactions and the Badcock Receivables portfolio (see both case studies for detail). The \$201MM secured Vintage loan bears PIK interest of 12% and matures in 2027. The vast majority of the collateral are shares of FRG.
<b>Receivables</b>	Our receivables portfolio is comprised of 3 separate transactions, 2 of which are outlined in the Badcock Receivables Case Study. Gross IRRs in the portfolio have been 25%+ and we expect the portfolio to be fully monetized within the next 18 months.



## 2. RILY loaned another \$50 million to VCM (Private FRG) so it could sell its remaining Badcock receivables back to VCM:

In Q3 2023, just 2 days prior to the closing of the FRG go private deal, RILY made a \$50 million loan to Freedom VCM (soon to be private FRG) to help it finance the repurchase of the rest of the Badcock receivables left on RILY's balance sheet. On the 3Q23 earnings call, Bryant made no disclosure of this sale and, knowing full well that VCM was essentially insolvent, told investors that RILY's receivables exposure was now down to \$50 million, which was "money good" credit.

Badcock Loan Receivable	
<p>On December 20, 2021, the Company entered into a Master Receivables Purchase Agreement ("Badcock Receivables I") with W.S. Badcock Corporation, a Florida corporation ("WSBC"), an indirect wholly owned subsidiary of Franchise Group, Inc., a Delaware corporation ("FRG"). The Company paid \$400,000 in cash to WSBC for the purchase of certain consumer credit receivables of WSBC. On September 23, 2022, the Company's majority-owned subsidiary, B Riley Receivables II, LLC ("BRRRII"), a Delaware limited liability company, entered into a Master Receivables Purchase Agreement ("Badcock Receivables II") with WSBC. This purchase of \$168,363 consumer credit receivables of WSBC was partially financed by a \$148,200 term loan discussed in Note 11. During the nine months ended September 30, 2023, BRRRII entered into Amendment No. 2 and No. 3 to Badcock Receivables II with WSBC for a total of \$145,278 in additional consumer credit receivables. The accounting for these transactions resulted in the Company recording a loan receivable from WSBC with the recognition of interest income at an imputed rate based on the cash flows expected to be received from the collection of the consumer receivables that serve as collateral for the loan. These loan receivables are measured at fair value.</p>	
<p>On August 21, 2023, all of the equity interests of BRRRII, a majority-owned subsidiary of the Company, were sold to Freedom VCM Receivables, Inc. ("Freedom VCM Receivables"), for a purchase price of \$58,872, which resulted in a loss of \$78. In connection with the sale, Freedom VCM Receivables assumed the obligations with respect to the Pathlight Credit Agreement as more fully discussed in Note 11 and as consideration for the purchase price, Freedom VCM Receivables entered into a note receivable in the amount of \$58,872, with a stated interest rate of 19.74% and a maturity date of August 21, 2033. Principal and interest is payable based on the collateral without recourse to Freedom VCM Receivables which includes the performance of certain consumer credit receivables. This loan receivable is measured at fair value.</p>	
<p>In connection with these loans, the Company entered into a Servicing Agreement with WSBC pursuant to which WSBC provides to the Company certain customary servicing and account management services in respect of the receivables purchased by the Company under the Receivables Purchase Agreement. In addition, subject to certain terms and conditions, FRG has agreed to guarantee the performance by WSBC of its obligations under the Master Receivables Purchase Agreements and the Servicing Agreement.</p>	
<p>As of September 30, 2023 and December 31, 2022, the Badcock Receivables I loan receivable to WSBC in the Company's condensed consolidated balance sheets included loans measured at fair value in the amount of \$33,604 and \$175,795, respectively. The Badcock Receivables II loan receivable was measured at fair value in the amount of \$142,314 as of December 31, 2022. As of September 30, 2023, the Freedom VCM Receivables' loan receivable in connection with the sale of all of the equity interests of BRRRII was included in the Company's condensed consolidated balance sheets in loans receivable, at fair value in the amount of \$50,789.</p>	

again. We were a founder in that business. We have been a great -- with a great partnership with Brian. We have great partners with other management teams. We've helped fund that Badcock. We sold the real estate. We made 27% IRR on our receivables. We made -- on the first patch, who made over 40% on the second batch. We have \$50 million exposure there now, which is money good and we over time, determined that the better path was to allow shareholders that were involved in franchise group, many of which rolled as well as management many of which purchased in the deal to participate.

The following table from FRG's Q2 2023 10-Q shows that the credit quality of its receivables was *terrible*, with delinquency rates on loans originated in 2021 at a shocking 48.4%, and loans originated before 2021 50% delinquent. Riley continued to tout the quality of these exact same receivables to shareholders at the same time he was stuffing them back into Freedom VCM (private FRG):

Badcock Delinquency Bucket										
(in thousands)	2023	%	2022	%	2021	%	Prior	%	Total	%
Current	\$55,147	80.9%	\$106,332	58.0%	\$12,030	30.7%	\$4,243	29.0%	\$177,752	58.3%
1-30	6,740	9.9%	19,626	10.7%	3,752	9.6%	1,298	8.9%	31,416	10.3%
31-60	2,376	3.5%	7,626	4.2%	2,369	6.1%	951	6.5%	13,322	4.4%
61-90	1,580	2.3%	5,899	3.2%	2,069	5.3%	812	5.6%	10,360	3.4%
91+	2,314	3.4%	43,742	23.9%	18,929	48.4%	7,303	50.0%	72,288	23.7%
<b>Total</b>	<b>\$68,157</b>		<b>\$183,225</b>		<b>\$39,149</b>		<b>\$14,607</b>		<b>\$305,138</b>	
<b>Total Delinquent</b>	<b>\$13,010</b>	<b>19.1%</b>	<b>\$76,893</b>	<b>42.0%</b>	<b>\$27,119</b>	<b>69.3%</b>	<b>\$10,364</b>	<b>71.0%</b>	<b>\$127,386</b>	<b>41.7%</b>

### 3. RILY Loaned Nearly Bankrupt Conn’s \$108m to Take the Rest of the Toxic Badcock Receivables Off Its Books:

Bryant told investors Badcock was worth \$390m EV on December 12, 2023, but \$RILY had to loan Conn’s \$108 million to get it to buy Badcock from private FRG in an all-stock transaction notionally worth \$70 million on December 16, 2023 (an 82% markdown in just 4 days!). The table below is from RILY’s December 13, 2023 investor day:

(\$MM)	Valuation metric		Valuation Multiple			Implied EV
			Low	Median	High	
Vitamin Shoppe	2022A Adj. EBITDA	\$135	7.0x	8.5x	10.0x	\$1,148
Sylvan Learning Centers	2022A Adj. EBITDA	14	11.0x	12.0x	13.0x	168
Buddy’s	2022A Adj. EBITDA	16	9.0x	10.0x	11.0x	160
Pet Supplies Plus	2026E Adj. EBITDA	185	11.0x	12.0x	13.0x	2,220
American Freight	2026E Adj. EBITDA	238	7.0x	8.0x	9.0x	1,904
<b>Badcock</b>	2026E Adj. EBITDA	65	5.0x	6.0x	7.0x	<b>390</b>
Total						\$5,990

This all stock deal is 100% of Conn’s market cap. Chances that RILY will sell its new shares for \$70m is extremely low. We believe that without this \$108 million loan, CONN will go bankrupt (<\$10m of cash and has burned ~\$40m of FCF).

We think it’s *highly unlikely* that RILY ever gets repaid for this “loan.”

#### *Term Loan and Security Agreement*

On December 18, 2023, the Company, as parent and guarantor, and the Borrowers, entered into a second-[lien term loan and security agreement](#) (the “Term Loan”) with BRF Finance Co., LLC, as administrative agent and collateral agent, and the financial institutions party thereto, as lenders. The Term Loan provides for an aggregate commitment of \$108.0 million to the Borrowers pursuant to a secured term loan credit facility maturing on February 20, 2027, which was fully drawn on December [18], 2023. Outstanding loans under the Term Loan will bear interest at an aggregate rate per annum equal to the Term SOFR Rate (as defined in the Term Loan), subject to a 4.80% floor, plus a margin of 8.00%. The obligations of the Borrowers under the Term Loan are guaranteed by the Company and certain of the Borrowers’ subsidiaries. The Borrowers are required to make quarterly scheduled amortization payments of the Term Loan prior to the maturity thereof in an amount equal to \$1.35 million. The Term Loan is secured by liens (subject, in the case of priority, to the liens under the Revolving Credit Agreement) on substantially all of the assets of the Borrowers and their subsidiaries, subject to customary exceptions.

#### **4. Brian Kahn's Word is "good enough" for Bryant:**

Unlike in the Q4 earnings call when Bryant sounded like his lawyers were forcing him at gunpoint to read his statement verbatim. In the Q3 call, Bryant was all piss and vinegar and went off the cuff several times. His most infamous remark was regarding Kahn, whom he defended vigorously at the end of the call. Kahn had just been identified as the unnamed co-conspirator in a DOJ indictment for a massive ponzi scheme. The named conspirator had pled, and so it looked like Kahn was the ultimate target of an ongoing investigation.

Despite a mountain of evidence from the DOJ that pointed towards Kahn's involvement in Prophecy, Bryant stated that Kahn had denied it, and that was "good enough" for him:

So, there should be no confusion where that is and I know that today a statement came out from Brian's denying any involvement and what happened with prophecy and that's good enough for me. So, I don't want to just be crystal clear. What I believe, we're going to make a lot of money for our shareholders and franchise group just like we did in the first investment when we bought a big chunk of Liberty Tax a date and just like we did in Badcock and just like -- and we will continue to do so. So, want to answer that question and we'll go back to decoding the South.

#### **5. Kahn and Bryant's Backroom Deal to Pay More for FRG Than It Was Worth:**

The FRG deal was worked out between Bryant and Kahn without the lawyers present according to the proxy. The proxy also discloses that B. Riley admitted it didn't think FRG was worth \$30/share, but was willing to go through with it, so long as it was done on an expedited basis and RILY wouldn't be the controlling shareholder of FRG and be forced to consolidate it into their financial statements. Even though this was all laid out in black and white in the Proxy, Bryant denied that the price was too high and even claimed that he would have been happy to buy all of FRG on RILY's Q3 2023 earnings call:

Later on April 28, 2023, representatives of Jefferies spoke with representatives of B. Riley to communicate the Special Committee's counterproposal. In response, B. Riley communicated its belief that, based on diligence performed and information reviewed after the date of the Original Proposal, including with respect to the Preliminary Management Projections, the value of the Company was lower than B. Riley perceived when it made its Original Proposal of \$30.00 per share. B. Riley indicated that it would nevertheless be willing to maintain its offer at \$30.00, but that it was unwilling to increase its offer price under any circumstances. Representatives of B. Riley further communicated (i) its willingness to proceed with the proposed transaction at a cash price of \$30.00 per share of FRG Common Stock on an expedited timeline to facilitate a deal announcement prior to, or contemporaneous with, the Company's planned earnings announcement on May 10, 2023 and (ii) its confirmation of the Unaffiliated Stockholders Voting Condition as set forth in B. Riley's March 19 Letter.

Between April 30 and May 9, 2023, B. Riley continued to evaluate the nature and structure of the proposed acquisition of the Company. In addition, during this time period, B. Riley held discussions with Brian Kahn regarding the potential transaction and the relationship among the parties with respect thereto. After additional consideration and discussion with its advisors, B. Riley determined that, while it remained interested in providing financing to facilitate a transaction, it would be necessary to do so in a manner that would not result in it controlling or having to consolidate the Company into its financial statements. The parties therefore determined that, if a transaction were to proceed, Brian Kahn would control the surviving company from a governance perspective and may own, directly or indirectly, a majority of the outstanding equity of the surviving company.

Bryant Riley on RILY's Q3 2023 earnings call:

I want to be -- I want to -- I want to actually answer some questions that I don't think we're asked and I think there's noise out there. So, I want to -- I want to address it and be crystal clear.

We would have bought all of the franchise group. We are a huge fan of that business and it's a really simple analysis. They have a great study either Badcock and Vitamin Shops, Pet Supply Plus, which is bought for \$900 million is going to get to \$140 million in the next couple of years. American Freight is an unbelievable business that faces the same challenges of targets. That's a business that was doing \$110 million in 2021 and went down along with that graph. That was our opportunity and we would buy that over and over again. We were a founder in that business. We have been a great -- with a great partnership with Brian. We have great partners with other management teams. We've

#### **6. RILY Paid \$5/ share for 3.7 million shares of bebe when it traded for \$2/ share OTC:**

For years, RILY valued its stake in bebe at level 3 fair value even though these shares trade publicly (albeit OTC). After years of overvaluing their Bebe share far above the market price. But in a strange twist, after criticism from Friendly Bear (and perhaps even the SEC), they bought out the founder's 3.7 million share stake at \$5/share, more than double the market price at the time:

*bebe stores, inc.*

As of September 30, 2023 and December 31, 2022, the Company had a 47.5% and 40.1% ownership interest in bebe, respectively. The equity ownership in bebe for the periods covered by this report was accounted for under the equity method of accounting and the investment is included in prepaid expenses and other assets in the condensed consolidated balance sheets. On October 6, 2023, the Company purchased an additional 3,700,000 shares of bebe for an aggregate purchase price of \$18,500, resulting in an increase in the Company's ownership interest to 76.2%. The purchase of these additional shares resulted in the Company having a majority voting interest in bebe and will require the consolidation of bebe financial results for periods subsequent to October 6, 2023. The impact of the consolidation of bebe's financial statements is not expected to be material to the Company's financial position or operating results. Since the controlling interest was acquired subsequent to quarter end, the Company believes the disclosure of pro forma financial information is impracticable because the financial information and valuation reports needed to account for the acquisition and prepare unaudited pro forma financial information has not been made available to the Company as of the reporting date. As of September 30, 2023, the carrying value of the Company's equity method investment in bebe was remeasured as a result of the purchase of additional shares on October 6, 2023 and the remeasurement resulted in the recognition of a loss in the amount of \$12,891, which is included in other income (expense) - change in fair value of financial instruments and other in the accompanying condensed consolidated statements of operations.

## 7. The Arena Group Deal:

As of September 30, 2023, RILY had a \$103.6 million loan receivable from AREN set to mature in December 2023. AREN had less than \$10 million of cash on its balance sheet and did nothing but burn cash. The debt was worthless.

B. Riley and its affiliates also owned 25.4% of AREN's stock, and Bryant Riley personally owned another 7.9% of AREN stock. **By early December 2023, AREN shares were down nearly 80% YTD.**

**One day** before that loan was set to mature and bankrupt AREN instantly, Bryant and his company were saved by... the founder of 5 hour energy? Yes, apparently Bryant and his company were bailed out of this disastrous loan by [the 5 hour energy guy](#) at 70c on the dollar. Oh, he agreed to buy their stock too.

Just a month later, AREN defaulted on its debt and licensing agreements, nearly sending the stock to zero. We honestly don't know what else to say about this series of events other than, well, *what the hell actually happened here?*

## 8. Wes Cummins Resignation from RILY:

Earlier this year RILY reportedly loaned APLD nearly \$50 million so it could complete its dreams of moving from a potato farm to an AI-cloud service.

At the time RILY executives, including Wes Cummins, made up the majority of the board, and RILY had a large stake in the company. However, when things started going sideways at RILY, the RILY execs on APLD's board decided to raise equity and use it to repay RILY early, ***with an early repayment penalty.***

On the same day, Wes Cummins resigned from his position at RILY. This shouldn't surprise anyone who read [our report on APLD](#) from July 2023.

The Note includes customary representations, warranties and covenants and sets forth certain events of default after which the outstanding Principal Amount may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving the Company after which the outstanding Principal Amount becomes automatically due and payable.

Affiliates of the Lender are both an investor in B. Riley Financial, Inc. and also an investment management client of B. Riley Asset Management. As previously disclosed, Wes Cummins, the Company's Chairman and Chief Executive Officer, served as the President of B. Riley Asset Management, and effective February 5, 2024, resigned from that position. Mr. Cummins is no longer employed by B. Riley Financial, Inc. or any affiliate thereof. As previously disclosed, affiliates of B. Riley Financial, Inc. were lenders to the Company and its subsidiaries, which loans were repaid in full, and one or more of such affiliates were, and to the Company's knowledge no longer are, investors in the Company.

The foregoing description of the Note is not complete and is qualified in its entirety by reference to the full text of the Note, a copy of which is filed herewith as Exhibit 4.1 to this Current Report on Form 8-K and is incorporated herein by reference.

## 9. Andy Moore's Margin Call:

After the Kahn news broke and RILY's stock tumbled, the shares B. Riley Securities CEO Andy Moore had pledged for a (previously undisclosed) personal loan were liquidated pursuant to a margin call. RILY's proxy states it was against policy for anyone to pledge their shares as collateral without permission of the board. Nothing was disclosed in the Proxy about Moore's loan. Investors had no idea about this loan until this form 4 was filed. Can you imagine this happening at any reputable company? Andy Moore is still the CEO of B. Riley Securities, and this begs the question – how many more undisclosed margin loans do RILY's executives have at risk?

1. Name and Address of Reporting Person*		2. Issuer Name and Ticker or Trading Symbol		5. Relationship of Reporting Person(s) to Issuer (Check all applicable)						
<u>Moore Andrew</u>		<u>B. Riley Financial, Inc. [ RILY ]</u>		<input type="checkbox"/> Director 10% Owner <input checked="" type="checkbox"/> Officer (give title below) Other (specify below) <u>CEO B. Riley Securities, Inc.</u>						
(Last)	(First)	(Middle)	3. Date of Earliest Transaction (Month/Day/Year)		6. Individual or Joint/Group Filing (Check Applicable Line)					
<u>C/O B. RILEY FINANCIAL, INC.</u>			<u>11/13/2023</u>							
<u>11100 SANTA MONICA BLVD., SUITE 800</u>			4. If Amendment, Date of Original Filed (Month/Day/Year)							
(Street)		<u>LOS ANGELES CA 90025</u>		<input checked="" type="checkbox"/> Form filed by One Reporting Person						
(City)	(State)	(Zip)	<input type="checkbox"/> Form filed by More than One Reporting Person							
Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned										
1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Beneficial Ownership (Instr. 4)		
			Code	V					Amount	(A) or (D)
<u>Common Stock</u>	<u>11/13/2023</u>		<u>S<sup>(1)</sup></u>		<u>61,609<sup>(2)</sup></u>	<u>D</u>	<u>\$20.3482</u>	<u>318,054</u>	<u>D</u>	

### Explanation of Responses:

- The sales reported in this Form 4 were made by a broker, without instruction by the Reporting Person, to satisfy a margin call. As a Section 16 filer, the Reporting Person has not otherwise sold shares of the Issuer's common stock and the Reporting Person intends to continue increasing his investment in the Issuer over time.
- These transactions were executed in multiple trades at prices ranging from \$16.72 to \$24.14. The prices reported above reflect the weighted average sales prices. The Reporting Person hereby undertakes to provide upon request from the SEC staff, the issuer or a security holder of the issuer, full information regarding the number of shares and prices at which the transactions were effected.

/s/ Andrew Moore

11/15/2023

\*\* Signature of Reporting Person

Date

## 10. The Collapse of FAZE:

RILY really outsmarted itself with FAZE. It was conflicted up the wazoo on the transaction as it was as the SPAC sponsor, PIPE lender, Bridge-loan lender, and underwriter for the deal. They were on every side of the table on the deal, but did not see that FAZE was just a terrible money losing business. Originally RILY's investment in FAZE was worth something like \$120 million, and in their latest 13-F it was worth less than \$2.

<u>FAZE HOLDINGS INC</u>	<u>COMMON STOCK</u>	<u>31423J102</u>	<u>1,985,067</u>	<u>11,028,151</u>	<u>SH</u>
<u>FAZE HOLDINGS INC</u>	<u>*W EXP 03/01/202</u>	<u>31423J110</u>	<u>671</u>	<u>156,001</u>	<u>SH</u>



## **Conclusion:**

As you can see, we have been watching this dumpster fire for quite some time. We have published three reports, two on RILY and another on APLD which you can review on our [website](#), or on the Bloomberg Terminal under our research provider ID “WLF.”

We are not surprised that things have degenerated completely at RILY. No one can predict the future, but we think the most likely outcomes for RILY are the following:

- They receive a qualified audit opinion from Marcum on their 2023 10-K, at best.
- Marcum resigns and RILY’s 2023 10-K is *never* actually filed.
- Fire sales of all possible assets to remain solvent – although this likely wouldn’t be enough to satisfy RILY’s creditors.
- Chapter 7 bankruptcy.

Only time will tell. We’ll continue to sit back and watch the show.

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