

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2020

or

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

Commission File No: 001-12629

NATIONAL HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4128138
(I.R.S. Employer
Identification No.)

200 Vesey Street, 25th Floor
New York, NY 10281
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 417-8000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered:</u>
Common Stock, \$0.02 par value per share	NHLD	The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of March 31, 2020, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sales price of \$1.56 per share for the registrant's common stock, as quoted on the Nasdaq Capital Market, was approximately \$4,433,720.

As of November 30, 2020, there were 13,639,622 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's proxy statement for the 2021 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-K includes forward-looking statements as defined in the Private Securities Reform Act of 1995. These forward-looking statements are often identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “continue,” “plan” and similar expressions. These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements.

You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including:

- general economic conditions;
- our ability to obtain future financing or funds when needed;
- our ability to maintain sufficient regulatory net capital;
- the ability of our broker-dealer operations to operate profitably in the face of intense competition from larger full-service and discount brokers;
- a general decrease in financing and merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed;
- increased competition from online and business development portals;
- technological changes;
- our potential inability to implement our growth strategy through recruiting, acquisitions or joint ventures;
- acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties;
- our continued ability to maintain and execute our business strategy;
- the impact of the ongoing COVID-19 pandemic on our business operations; and
- the previously announced offer from B. Riley Financial regarding a potential transaction involving our shares of common stock.

You should also consider carefully the statements under “Risk Factors” and other sections of this Annual Report on Form 10-K, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, or factors we are unaware of, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I

Item 1. BUSINESS

National Holdings Corporation (“National,” “we,” “us,” “our,” or the “Company”) is a full-service investment banking and asset management firm that operates through its wholly-owned subsidiaries which principally provide financial services. Through our broker-dealer and investment advisory subsidiaries, we (1) offer full service retail brokerage services to individual, corporate and institutional clients, (2) provide investment banking, merger and acquisition and advisory services to high-growth micro-, small- and mid-cap companies and (3) trade securities, including making markets in micro- and small-cap stocks listed on the Nasdaq Capital Market (“Nasdaq”) and other exchanges.

National is a Delaware corporation organized in 1996. Our broker-dealer subsidiaries are National Securities Corporation, a Washington corporation (“NSC”), and Winslow, Evans & Crocker, Inc., a Massachusetts corporation (“WEC”). NSC conducts a national securities brokerage business through its main offices in New York City, New York and Boca Raton, Florida. NSC is an introducing broker and clears all transactions through clearing organizations on a fully disclosed basis. WEC is a Boston-based, full-service investment firm established in 1991. NSC and WEC are registered with the Securities and Exchange Commission (“SEC”) and are members of the Financial Industry Regulatory Authority (“FINRA”), Municipal Securities Rulemaking Board (“MSRB”) and Securities Investor Protection Corporation (the “SIPC”).

Our brokers, who we also refer to as our registered representatives, operate either as independent contractors or employees. An independent contractor registered representative typically establishes such representative’s own office and is responsible for the payment of expenses associated with the operation of such office, including rent, utilities, furniture, computer and other equipment, market data, software and general office supplies. As a result, such independent contractor registered representative is entitled to retain a higher percentage of the commissions generated by such representative’s sales than a registered representative employee at a traditional employee-based brokerage firm. This arrangement allows us to operate with a reduced amount of fixed costs and lowers the risk of operational losses for less productive independent contractor registered representatives. A registered representative employee is provided with office space, technology, regulatory support and administrative support in exchange for a lower retention percentage of such employee’s production.

Our wholly-owned subsidiary, National Asset Management, Inc., a Washington corporation (“NAM”), is a federally-registered investment advisor providing asset management advisory services to retail clients for a fee based upon a percentage of assets managed.

Our wholly-owned subsidiaries, National Insurance Corporation, a Washington corporation (“National Insurance”), and Prime Financial Services, a Delaware corporation (“Prime Financial”), provide fixed insurance products to their clients, including life insurance, disability insurance, long-term care insurance and fixed annuities.

Our wholly-owned subsidiary, National Tax and Financial Services, Inc. (“National Tax”) formerly Gilman Ciocia, Inc., a Delaware corporation, provides tax preparation services to individuals, predominantly in the middle- and upper-income tax brackets and accounting services to small and midsize companies.

Our wholly-owned subsidiary, GC Capital Corporation, a Delaware corporation (“GC”), provides licensed mortgage brokerage services in New York and Florida.

Our wholly-owned subsidiary, Winslow, Evans & Crocker Insurance Agency, Inc., a Massachusetts corporation (“WIA”), provides fixed insurance products to its clients, and our wholly-owned subsidiary, Winslow Financial, Inc., a Massachusetts corporation (“WF”), is an SEC Registered Investment Advisor.

Our wholly-owned subsidiary, United Advisors, LLC, a New Jersey limited liability company (“UA”), is a New York-based, advisor and wealth management firm. United Advisor Services, LLC, a New Jersey limited liability company (“UAS”), is an SEC Registered Investment Advisor, and Financial Services International Corporation, a Washington corporation (“FSIC”), is a FINRA registered broker-dealer.

Proposal

On November 14, 2018, B. Riley Financial, Inc. (“B. Riley”) and FBIO Acquisition, Inc. (“FBIO Acquisition”), a subsidiary of Fortress Biotech, Inc, entered into a stock purchase agreement whereby FBIO Acquisition agreed to sell FBIO Acquisition’s majority stake in the Company to a wholly owned subsidiary of B. Riley (the “FBIO Sale”). In connection with the FBIO Sale, the Company entered into an agreement with B. Riley (the “B. Riley Agreement”), pursuant to which B. Riley agreed to certain customary standstill provisions, effective as of the date of the B. Riley Agreement through December 31, 2021.

On April 30, 2020, B. Riley and the Company entered into a limited waiver of certain provisions of the B. Riley Agreement and in connection therewith, B. Riley amended its Schedule 13D filing relating to the Company and sent the Board of Directors (the “Board”) a letter containing a proposal regarding the Company. The Board formed a Special Committee of non-executive, independent directors to review the B. Riley proposal.

COVID-19 Update and Action

The COVID-19 outbreak continues to cause significant disruption in business activity and the financial markets both globally and in the United States. As a result of the spread of COVID-19, economic uncertainties have arisen which have negatively impacted and are likely to continue to negatively impact our businesses, financial condition, results of operations, cash flows, strategies and prospects. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on our clients, employees, vendors and the markets in which we operate our businesses, all of which are uncertain at this time and cannot be predicted. The extent to which COVID-19 may impact our financial condition or results of operations cannot be reasonably estimated at this time.

The Company's management put cost-savings plans into effect to mitigate the cash drain that potential, downward pressure on its business might cause. In particular, the Company's management made the very difficult decision to downsize its staff, significantly reduce compensation for many employees and implement moratoriums in variable spending categories.

We continue to be cautious due to events that may be driven by the evolution of this pandemic that are unknown, are highly uncertain, and cannot be predicted as it relates to the Company's clients, employees, vendors, and the markets in which the Company operates its businesses.

Paycheck Protection Program

On April 10, 2020, NSC entered into a Promissory Note (the "NSC Note") with Axos Bank as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to NSC in the principal amount of \$5,523,738 under the Paycheck Protection Program (the "NSC Loan") offered by the U.S. Small Business Administration (the "SBA") pursuant to the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to qualified small businesses (the "PPP"). On April 15, 2020, WEC also entered into a Promissory Note (the "WEC Note" and together with the NSC Note, the "PPP Notes") with the Lender, pursuant to which the Lender agreed to make a loan to WEC in the principal amount of \$973,062 under the PPP (the "WEC Loan" and together with the NSC Loan, the "PPP Loans").

The interest rate on each PPP Note is a fixed rate of 1% per annum. Interest is calculated by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. The applicable borrower is required to make monthly payments commencing on the first day of the first full calendar month following the end of a statutorily defined deferral period (the "Deferral Period"), and such payments shall continue to be due and payable on the first day of each calendar month thereafter until the date that is two (2) years following the funding date (the "Maturity Date"), which is April 13, 2022 in the case of the NSC Note and April 16, 2022 in the case of the WEC Note. Monthly payment amounts are based on repayment of interest accrued during the Deferral Period, interest accruing until and including the Maturity Date, and full amortization of the outstanding principal balance. The PPP loans are recorded as debt.

According to the terms of the PPP, all or a portion of loans under the PPP may be forgiven if certain conditions set forth in the CARES Act and the rules of the SBA are met. In addition, each PPP Note includes events of default, the occurrence and continuation of which would provide the Lender with the right to exercise remedies against NSC or WEC, as applicable, including the right to declare the entire unpaid principal balance under the applicable PPP Note and all accrued unpaid interest immediately due. There can be no assurance that the SBA will forgive all or any part of the PPP Loans, or that it will not assert that the conditions to obtaining such loans were met, in which case the PPP Loans could be subject to acceleration.

United Advisors Acquisition

On February 7, 2020, the Company entered into a Stock Purchase Agreement (the "United Advisors Agreement" and the transactions contemplated thereunder, the "United Advisors Acquisition") with United Atlantic Capital, LLC, a New Jersey limited liability company ("UAC"), Mark H. Penske ("MHP") and Darin Pope ("DP" and together with UAC and MHP, the "Selling Parties") to acquire all of the outstanding equity interests (collectively, the "Purchased Group Shares") of Financial Services International Corporation, a Washington corporation ("FSIC"), United Advisor Services, LLC, a New Jersey limited liability company ("UAS"), and United Advisors, LLC, a New Jersey limited liability company ("UA" and collectively with FSIC and UAS, the "Group Companies").

On September 11, 2020, the Company completed the acquisition of all of the outstanding equity interests of the Group Companies. Under the terms of the United Advisors Agreement, at the closing of the United Advisors Acquisition, the Company acquired the Purchased Group Shares for a closing payment of \$3.0 million paid in cash. Under the Purchase Agreement, the Selling Parties are entitled to additional consideration of up to approximately \$4.5 million paid in twelve equal quarterly installment payments in cash (the "Additional Cash Purchase Price"), subject to certain adjustments.

UA is a New York-based, advisor and wealth management firm. UAS is an SEC Registered Investment Advisor and FSIC is a FINRA registered broker-dealer. More than 25 financial professionals are part of the United Advisors team.

Winslow, Evans & Crocker, Inc. Acquisition

On August 26, 2019, the Company entered into a stock purchase agreement (as amended, the "Winslow Agreement" and the transactions contemplated thereunder, the "Winslow Acquisition") whereby the Company agreed to acquire all of the outstanding equity interests (the "Purchased Winslow Shares") of Winslow Evans & Crocker, Inc. ("WEC"), Winslow, Evans & Crocker Insurance Agency, Inc. ("WIA"), and Winslow Financial, Inc. ("WF" and collectively with WEC and WIA, the "Winslow Targets"). The Company entered into an amendment to the Winslow Agreement on October 11, 2019, to reflect certain clarifications to the terms of the Winslow Agreement as agreed to by the parties.

On December 31, 2019, the Company completed the acquisition of all of the outstanding equity interests of the Winslow Targets.

Under the terms of the Winslow Agreement, at the closing of the Winslow Acquisition, the Company acquired the Purchased Winslow Shares for an aggregate purchase price of approximately \$3.2 million paid at closing in cash, subject to certain adjustments, plus additional consideration to be based on (i) the amount of net operating capital of WEC and WF as of the closing, payable in three annual installments and not to exceed \$1.0 million in the aggregate, (ii) the aggregate pre-tax net income (loss) of the Winslow Targets through September 22, 2022, provided that such additional consideration shall not be less than \$1.5 million and shall not exceed \$3.0 million in the aggregate, and (iii) a portion of the synergies achieved through September 20, 2022. At the signing of the Winslow Agreement, the Company deposited \$500,000 into escrow, which was applied to the amount payable at closing.

WEC is a Boston-based, full-service investment firm established in 1991. WEC is an SEC Registered Investment Advisor and a FINRA registered broker-dealer. More than 50 financial professionals including Certified Financial Planners, Investment Advisor Representatives, Financial Consultants, brokers and other specialists are part of the Winslow team. Located in the heart of the financial district in Boston, MA, the Company believes that WEC is a strategic location for the Company to build out its banking platform.

Clearing Relationships

NSC has clearing arrangements with National Financial Services LLC (“NFS”), Axos Clearing (“Axos”) formerly COR Clearing LLC, Raymond James (“RJ”) and Interactive Brokers LLC. WEC has clearing arrangements with RJ and Pershing LLC.

Financial Information about Industry Segments

The Company has two reportable segments: (i) the brokerage and advisory services segment, and (ii) the tax and accounting services segment. The brokerage and advisory services segment includes broker-dealer and investment advisory services, the sale of insurance products and licensed mortgage brokerage services provided by NSC, NAM, National Insurance, Prime Financial, GC, WEC, WIA and WF. The tax and accounting services segment includes tax preparation and accounting services provided by National Tax.

During the fiscal years ended September 30, 2020 and 2019, we recognized approximately 74% and 73%, respectively, of our total revenues from brokerage services, principal and agency transactions, and investment banking. During the fiscal years ended September 30, 2020 and 2019, (i) brokerage services consisting of retail brokerage commissions represented 51% and 41%, respectively, of total revenues, (ii) principal and agency transactions consisting of net dealer inventory gains (losses) represented 1% and (1)%, respectively, of total revenues, and (iii) investment banking consisting of corporate finance commissions and fees, represented 22% and 33%, respectively, of total revenues. For a more detailed analysis of our results by segment, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Business Lines

Brokerage Services

NSC and WEC are each registered as broker-dealers with the SEC and licensed to conduct activities as a broker-dealer in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. NSC and WEC are also members of FINRA, MSRB and SIPC.

Registered representatives are given broad discretion to structure their own practices and specialize in different areas of the securities markets subject to supervisory procedures and applicable rules and regulations. In addition, registered representatives have direct access to research materials, our management, our traders, and all levels of our support personnel.

The brokerage services provided by our registered representatives and investment advisors include execution of purchases and sales of stocks, options, bonds, mutual funds, annuities and various other securities for individual and institutional customers. In the fiscal year ended September 30, 2020, trades of stocks and options represented approximately 58% of our brokerage revenues, trades of bonds represented approximately 10% of our brokerage revenues, and trades of mutual funds, annuities and various other securities made up approximately 24% of our brokerage revenues. The percentage of each type of business varies over time as the investment preferences of our customers change based on market conditions.

Typically, NSC and WEC do not recommend particular securities to customers. Rather, recommendations to customers are determined by individual registered representatives based upon NSC and WEC’s research and analysis or their own research and analysis, subject to applicable FINRA customer suitability standards. Most registered representatives perform fundamental (as opposed to technical) analysis. Solicitations are made by telephone, email, seminars or newsletters.

NSC and WEC generally act as agents in executing customer orders to buy or sell listed and over-the-counter securities in which we do not make a market and charge commissions based on the services we provide to our customers. In executing customer orders to buy or sell a security in which we make a market, we may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. We may also act as agent and execute a customer’s purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. We believe our mark-ups, mark-downs and commissions are competitive based on various factors including the services we provide to our customers. The commissions and mark-ups or mark-downs must be in compliance with guidelines established by FINRA. In order to increase revenues generated from these activities, we continuously seek to hire additional registered representatives and work with our current registered representatives to increase their productivity.

Payments to both our independent and employee registered representatives are based on commissions generated and represent a variable cost rather than a fixed cost of operating our business. Commission expense represents a significant majority of our total expenses. We work to control our fixed costs in order to achieve operating profitability based upon our expectation of market conditions and the related level of revenues. Our operations include execution of orders, processing of transactions, internal financial controls, supervision and compliance with regulatory and legal requirements.

Historically, most of our registered representatives served as independent contractors responsible for providing their own office facilities, sales assistants, telephone, Internet, computer and other equipment, software, market data, supplies and other items of overhead. As of September 30, 2020, we had a total of approximately 1,010 associates of which 390 were employees and 620 were independent contractors. Of these associates, approximately 700 were registered representatives.

We believe that registered representatives in the brokerage industry are traditionally compensated on the basis of set percentages of total commissions and mark-ups generated. Most brokerage firms bear substantially all of the costs of maintaining their sales forces, including providing office space, sales assistants, telephone and Internet service, computers and other equipment and supplies. We believe that the average commission paid to employee registered representatives in the brokerage industry generally ranges from 30% to 50% of total commissions generated.

Since we require a majority of our registered representatives to absorb their own overhead and expenses, we pay a higher percentage of the commissions and mark-ups generated by our registered representatives, as compared to traditional registered representatives in the brokerage industry. This arrangement also reduces fixed costs and lowers the risk of operational losses for lower or non-producing brokers.

Our business plan includes the growth of our retail and institutional brokerage business, while recognizing the volatility of the financial markets. In response to historical market fluctuations, we have periodically adjusted certain business activities, including proprietary trading and market-making trading. We believe that consolidation within the industry may occur and we may consider strategic acquisitions in the future, but we are focused on generating positive cash flow and maintaining profitability of our current operations.

We conduct periodic reviews of our controls and our supervision, administrative and operations personnel meet frequently with our management to review operating conditions. Our compliance, supervision and operations personnel monitor compliance with applicable laws, rules and regulations.

Broker-Dealer Trading

NSC and WEC buy and may maintain inventories in equity securities as “market-makers” for sale of those securities to other dealers and our customers. NSC and WEC may also maintain inventories in corporate, government and municipal debt securities for sale to our customers. The level of our market-making trading activities typically increases or decreases depending on the relative strength or weakness of the broader markets. As of September 30, 2020, we made markets in approximately 112 micro- and small-cap Nasdaq and other exchange-listed quoted stocks. We anticipate that we will continue market-making trading activity in the future, which may include securities of companies for which we participated as an underwriter for in a public offering of securities.

Our trading departments require a commitment of capital. Most principal transactions place our capital at risk. Profits and losses are dependent upon the skill of our traders, price movements, trading activity and the size of inventories. Since our trading activities occasionally may involve speculative and thinly capitalized stocks, including stabilizing the market for securities which we have underwritten, we impose position limits to reduce our potential for loss.

In executing customer orders to buy or sell a security in which we make a market, we may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. We may also act as agent and execute a customer’s purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. We believe our mark-ups, mark-downs and commissions are competitive based on various factors including the services we provide to our customers.

Investment Banking

We provide corporate finance and investment banking services, including underwriting the sale of securities to the public in both initial and follow-on offerings and arranging for the private placement of securities with investors. Our investment banking services require a short-term commitment of our capital. Our corporate finance operations provide a broad range of financial and corporate advisory services, including mergers and acquisitions, project financing, capital structure and specific financing opportunities. Corporate finance revenues are generated from capital raising transactions of equity and debt securities and fees for strategic advisory services. Recognizing the diversity of our clients, we plan to work closely with our independent advisors to identify key additional investment banking verticals that we can strengthen to enhance our offerings to our clients.

Investment Advisory Services

NAM, a wholly-owned subsidiary of the Company and a SEC-registered investment advisor, offers advisory services described below to clients in various programs. Under such customized engagements, clients authorize NAM to purchase and sell securities on a discretionary or non-discretionary basis (depending on the program) pursuant to investment objectives chosen by the client. The client's Investment Advisory Representative ("IAR") obtains the essential facts from the client, and assists in determining the appropriate program. The IAR provides ongoing investment advice and management that is tailored to the individual needs of the client through a review of the investment profile and objectives of the client. Depending on the program selected and the client's profile and objectives, the types of securities that may be purchased or sold include mutual funds, ETFs, equities, options, fixed income securities, structured notes and partnership interests in real estate, oil and gas, as well as management of variable annuity sub-accounts. Clients generally may impose reasonable restrictions on investing in certain securities or groups of securities.

NAM receives compensation from clients through assets under management fees, administrative fees, and in some instances, hourly fees, fixed fees, performance-based fees or carried interest. IARs receive a portion of the fees in accordance with their contract with NAM. A NAM IAR may also be a registered representative with NSC, a subsidiary of the Company and an affiliate of NAM, and therefore can establish and service brokerage accounts for NAM clients.

Programs currently offered by NAM include:

- The Portfolio Advisor Program, pursuant to which the IAR manages individual client accounts on a discretionary basis, with an asset-based fee;
- The Portfolio Advisor Plus Program, in which the IAR manages individual client accounts on a discretionary basis, with an alternative pricing structure whereby qualified clients may pay a performance-based fee in addition to an asset-based fee;
- The Morningstar Managed Portfolios Program, a proprietary program offered through Morningstar Investment Services, Inc., consisting of multiple investment strategies with multiple portfolios intended for a range of clients based on such factors as age, financial situation, time horizon, risk tolerance and any reasonable restrictions that the client may place on the portfolio selected for the account. Fees in this program are asset-based;
- The Investment Advisor Program, pursuant to which IARs provide advisory services with respect to variable annuity products, plans such as 401(k)s, 403(b)s, mutual funds, and retirement funds, as well as individually managed client accounts. Fees in this program are asset-based;
- Financial planning, offered for a flat fee or an hourly rate;
- Discretionary management services for private funds;
- Retirement solutions provided to retirement plan providers, sponsors, and participants through various products, services and custodial platforms, including FOLIO Institutional, which is a custodian and financial technology firm;
- Wrap programs, which are advisory programs in which advisory fees and execution fees are bundled, using a platform offered by Envestnet Asset Management, Inc., a SEC-registered investment adviser and "turnkey" asset management platform provider. The Envestnet platform provides wealth management technology for registered investment advisers along with asset management programs;
- A unified managed account program (a unified managed account refers to an account that combines investment vehicles into a single or "unified" account managed by one or more independent money managers) using Foliofn Investments, Inc. Foliofn is a custodian that offers a fractionalized share trading platform which enables investors to diversify investments across multiple securities; and
- A program utilizing the FTJ FundChoice Program, in which NAM serves as the advisor for the client on a non-discretionary basis.

NAM operates its programs as a directed brokerage subject to most favorable execution of client transactions. NAM does not require a client to utilize any particular broker/custodian and currently has relationships with a number of brokers/custodians that provide brokerage, clearing and custody services to clients in the programs. The choice of which broker/custodian to utilize is determined by the client in consultation with their IAR, and a client enters into a separate contractual relationship with the selected broker/custodian. Based on the client's selection, all transactions in their accounts are then placed through the selected broker-dealer. NAM clients may pay ticket charges for brokerage services according to the agreement between the client and the selected custodian.

Clients may elect to use NSC as their broker-dealer for certain programs. NSC maintains a clearing arrangement with NFS to execute transactions at negotiated clearing rates. NSC receives a portion of ticket charges paid by NAM clients for trades executed through NSC. NAM does not receive any compensation for such brokerage services.

NAM may combine multiple orders for shares of the same securities purchased for advisory accounts. NAM then allocates a portion of the shares to participating accounts in a fair and equitable manner. NAM does this to obtain, to the extent possible, the optimal execution for clients. The distribution of the shares purchased is typically pro rata based on size of the orders placed for each account. It is not based on account performance or the amount or structure of management fees. When NAM IARs combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by associated IARs may participate in block trading with client accounts; however, they will receive an allocation only after all client orders are filled.

Institutional Services

A critical element of our business strategy is to identify institutional quality investments that offer above market returns. We support that mission by providing institutional investment managers, primarily hedge fund managers, a complete array of services designed to enhance portfolio performance. Hedge funds represent a segment of the money management market and by definition are focused on achieving positive returns for their investors while controlling risk. We offer fund managers access to investment opportunities and independent research products. Additionally, we offer fund managers the ability to reduce their transaction costs by offering them access to our trading desk for illiquid securities and automated trading systems for their liquid transactions as well as special execution services using volume weighted averages and average pricing for micro and small-cap stocks. We believe that our registered representatives engaged in institutional services have a mutually beneficial relationship with our Investment Banking Division (“IBD”), as fund managers looking for investment opportunities participate in offerings by IBD’s corporate clients. Our relationships with fund managers may create opportunities to increase the number and breadth of IBD clients.

Administration, Operations, Securities Transactions Processing and Customer Accounts

NSC and WEC do not hold any funds or securities for customers. Rather, they use the services of clearing agents on a fully-disclosed basis. These clearing agents process securities transactions and maintain customer accounts. In addition to transactions executed through our clearing agents, NSC and WEC also conduct direct business. Customer accounts are protected through SIPC for up to \$500,000, of which coverage for cash balances is limited to \$250,000. In addition to SIPC protection, NFS, our primary clearing agent, provides brokerage accounts additional “excess of SIPC” coverage from Lloyd’s of London, together with other insurers. The “excess of SIPC” coverage would only be used when SIPC coverage is exhausted. Like SIPC protection, “excess of SIPC” protection does not cover investment losses in customer accounts due to market fluctuations. It also does not cover other claims for losses incurred while the firms remain in business. Total aggregate “excess of SIPC” coverage available on all accounts held at NFS is \$1.0 billion. Within the “excess of SIPC” coverage, there is no per account dollar limit on coverage of securities, just a per account limit of \$1.9 million on coverage of cash.

Tax Preparation and Accounting Services

We provide tax preparation and small business accounting services through our wholly-owned subsidiary, National Tax. The tax preparation business is conducted predominantly during the period from February through April of each year. During the 2020 tax year season, National Tax prepared approximately 26,000 federal, state and local tax returns.

We believe that we offer clients a cost effective and proactive tax preparation and tax planning service. National Tax’s volume allows it to provide uniform services at competitive prices. In addition, as compared to certain of its competitors that are open only during tax season, all of National Tax’s offices are open year round to provide financial planning and other services to our clients.

National Tax’s preparers are generally not certified public accountants, attorneys or enrolled agents. Therefore, they are limited in the representation that they can provide to clients in the event of an audit by the Internal Revenue Service (“IRS”).

Competition

We are engaged in a highly competitive business. With respect to one or more aspects of our business, our competitors include member organizations of the New York Stock Exchange and other registered securities exchanges in the United States and Canada, the U.K., Europe and members of FINRA. Many of these organizations have substantially greater personnel and financial resources and more sales offices than we do. Discount brokerage firms affiliated with commercial banks provide additional competition, as well as companies that provide electronic online trading. In many instances, the Company is also competing directly for customer funds with investment opportunities offered by the real estate, insurance, banking, and savings and loan industries.

The securities industry has become considerably more concentrated and competitive since we were founded, as numerous firms have either ceased operations or been acquired by or merged into other firms. In addition, companies not engaged primarily in the securities business, but with substantial financial resources, have acquired leading securities firms. These developments have increased competition from firms with greater capital resources than ours.

Since the adoption of the Gramm-Leach-Bliley Act of 1999, commercial banks and thrift institutions have been able to engage in traditional brokerage and investment banking services, thus increasing competition in the securities industry and potentially increasing the rate of consolidation in the securities industry.

We also compete with other securities firms for successful sales representatives, securities traders and investment bankers. Competition for qualified employees and independent contractors in the financial services industry is intense. Our continued ability to compete effectively depends on our ability to attract new employees and independent contractors and to retain and motivate our existing employees and independent contractors. For a further discussion of risks facing the Company, please see “Risk Factors.”

In addition, our tax preparation business is also subject to extensive competition. We compete with national tax return preparers such as H&R Block, Jackson Hewitt, and Liberty Tax. The remainder of the tax preparation industry is highly fragmented and includes regional tax preparation services, accountants, attorneys, small independently owned companies, and financial service institutions that prepare tax returns as ancillary parts of their business. To a lesser extent, we compete with the online and software self-preparer market.

Government Regulation and Supervision

NSC, WEC and our investment adviser businesses are subject to extensive regulation by the SEC, FINRA, MSRB, state securities regulators and other governmental regulatory authorities. The principal purpose of these regulations is the protection of customers and the securities markets. The SEC is the federal agency charged with the administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations (“SROs”), such as FINRA, that adopt rules, subject to approval by the SEC, which govern their members and conduct periodic examinations of member firms’ operations. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. NSC and WEC are registered broker-dealers with the SEC and members of FINRA. NSC and WEC are each licensed to conduct activities as a broker-dealer in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. A number of changes have been proposed to the rules and regulations that govern our securities business, and other rules and regulations have been adopted, which may result in changes in the way we conduct our business.

Broker-Dealer Regulation

As a result of federal and state registration and SRO memberships, broker-dealers are subject to overlapping schemes of regulation that cover all aspects of their securities businesses. Such regulations cover matters including capital requirements; uses and safekeeping of clients’ funds and securities; conduct of directors, officers, and employees; record keeping and reporting requirements; supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information; employee-related matters, including qualification and licensing of supervisory, sales and other personnel; limitations on extensions of credit in securities transactions; clearance and settlement procedures; requirements for the registration, underwriting, sale, and distribution of securities; customer identification rules; rules related to the identification and reporting of suspicious activity; and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation, including, in some instances, “suitability” determinations as to certain customer transactions, limitations on the amounts that may be charged to customers, timing of proprietary trading in relation to customers’ trades, and disclosures to customers.

Regulation NMS and Regulation SHO have substantially affected the trading of equity securities. These regulations were intended to increase transparency in the markets and have acted to further reduce spreads and, with competition from electronic marketplaces, to reduce commission rates paid by investors. The SEC recently enacted Regulation BI, which, among other things, establishes a new standard of conduct for broker-dealers when making a recommendation of a securities transaction or investment strategy involving securities to a retail customer. Broker-dealers must act in the “best interest” of the customer without placing their own financial or other interests ahead of the customer’s interest. Regulation BI requires a broker-dealer that is making a recommendation to comply with four obligations: a disclosure obligation, a care obligation, a conflict of interest obligation, and a compliance obligation.

Additional legislation, changes in rules promulgated by the SEC and by SROs, and changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC and the SROs conduct regular examinations of our broker-dealer subsidiaries and also initiate targeted and other specific inquiries from time to time, which generally include the investigation of issues involving substantial portions of the securities industry. The SEC and the SROs may conduct administrative proceedings, and the SEC may initiate litigation in federal court, either of which can result in censures, fines, disgorgement, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than the protection of creditors and stockholders of broker-dealers. The US Department of Justice and state criminal authorities may also investigate activities of broker-dealers and institute criminal or civil proceedings against broker-dealers for violations of applicable law.

NSC and WEC are subject to the Securities Investor Protection Act and are members of Securities Investors Protection Corporation (“SIPC”), whose primary function is to provide financial protection for the customers of failing brokerage firms. SIPC provides protection for customers up to \$500,000, of which a maximum of \$250,000 may be in cash.

Margin lending by NSC and WEC are subject to the margin rules of the Board of Governors of the Federal Reserve System and FINRA. Under such rules, NSC and WEC are limited in the amount each may lend in connection with certain purchases of securities and are also required to impose certain maintenance requirements on the amount of securities and cash held in margin accounts. In addition, NSC and WEC may impose more restrictive margin requirements than required by such rules.

Net Capital Rule

In addition, as a registered broker-dealer and a member of FINRA, NSC, WEC and FSIC are subject to the SEC’s Uniform Net Capital Rule 15c3-1 (the “Net Capital Rule”), which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires, among other things, the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer’s position in securities, be valued in a conservative manner so as to avoid overstating of the broker-dealer’s net capital.

In February 2015, pursuant to a directive from FINRA, NSC reverted back to using the alternative method of computing net capital from the aggregate indebtedness method. At September 30, 2020, NSC had net capital of \$3,812,891, which was \$2,812,891 in excess of its required minimum net capital of \$1,000,000, WEC had net capital of \$467,947 which was \$305,992 in excess of its required minimum net capital of \$161,955, and FSIC had net capital of \$117,538 which was \$112,538 in excess of its required minimum net capital of \$5,000. WEC’s ratio of aggregate indebtedness to net capital was 5.2 to 1, and FSIC’s ratio of aggregate indebtedness to net capital was 0.2 to 1.

NSC, WEC and FSIC are exempt from the provisions of the SEC’s Customer Protection Rule 15c3-3 (the “Customer Protection Rule”), since they are introducing broker-dealers that clear all transactions on a fully disclosed basis and promptly transmit all customer funds and securities to clearing brokers.

Tax Preparation

Our tax preparation business is also subject to extensive regulation. Federal legislation requires income tax return preparers to, among other things, register as a tax preparer, set forth their signatures and identification numbers on all tax returns prepared by them, and retain all tax returns prepared by them for three years. Federal laws also subject income tax preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they continuously and repeatedly engage in specified misconduct. In addition, authorized IRS e-filer providers are required to comply with certain rules and regulations, as per IRS Publication 1345 and other notices of the IRS applicable to e-filing.

IRS regulations require among other things, that all tax return preparers use a Preparer Tax Identification Number (“PTIN”) as their identifying number on federal tax returns filed after December 31, 2010, to be authorized to practice before the IRS. As a prerequisite to obtaining or renewing a PTIN, the PTIN applicants allow the IRS to conduct tax compliance checks and identify the individuals who are considered “tax return preparers”. The IRS also conducts background checks on PTIN applicants.

Other Regulations

We are also subject to the USA PATRIOT Act of 2001 (the “Patriot Act”), which imposes obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence, customer verification and other compliance policies and procedures. The conduct of research analysts is also the subject of rule-making by the SEC, FINRA, and the federal government through the Sarbanes-Oxley Act. These regulations require certain disclosures by, and restrict the activities of, research analysts and broker-dealers, among others. Failure to comply with these requirements may result in monetary, regulatory and, in the case of the USA Patriot Act, criminal penalties.

Our asset management subsidiaries, NAM, WEC and WF are SEC-registered investment advisers and are accordingly subject to regulation by the SEC. Requirements under the Investment Advisors Act of 1940 include record-keeping, advertising and operating requirements, as well as prohibitions on fraudulent activities.

Various regulators, including the SEC, FINRA and state securities regulators and attorneys general, are conducting both targeted and industry-wide investigations of certain practices relating to the financial services industry, including marketing, sales practices, valuation practices, asset managers, and market and compensation arrangements. These investigations have involved mutual fund companies, broker-dealers, hedge funds, investors and others.

In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices.

The Gramm-Leach-Bliley Act and related Federal Trade Commission regulations require us to adopt and disclose customer privacy policies.

Application of Laws and Rules to Internet Business and Other Online Services

Due to the increasing popularity and use of the Internet and other online services, various regulatory authorities are considering laws and/or regulations with respect to the Internet or other online services covering issues such as user privacy, pricing, content copyrights and quality of services. In addition, the growth and development of the market for online commerce may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. When the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), were enacted, such acts did not contemplate the conduct of a securities business through the Internet and other online services. The recent increase in the number of complaints by online traders could lead to more stringent regulations of online trading firms and their practices by the SEC, FINRA and other regulatory agencies.

Although the SEC, in releases and no-action letters, has provided guidance on various issues related to the offer and sale of securities and the conduct of a securities business through the Internet, the application of the laws to the conduct of a securities business through the Internet continues to evolve. Furthermore, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes and personal privacy is uncertain and may take years to resolve. Uncertainty regarding these issues may adversely affect the viability and profitability of our business.

As our services through our subsidiaries are available over the Internet in multiple jurisdictions and we have numerous clients residing in these jurisdictions, these jurisdictions may claim that our subsidiaries are required to qualify to do business as a foreign corporation in each such jurisdiction. While NSC and WEC are currently registered as broker-dealers in the jurisdictions described in this report, all of our subsidiaries are qualified to do business as corporations in only a few international jurisdictions. Failure to qualify as an out-of-state or foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties for the failure to qualify.

Intellectual Property

We own the following federally registered mark: Gilman Ciocia Tax & Financial Planning®.

Employees

As of September 30, 2020, the Company's personnel consisted of the following:

Position	Salaried Employees	Independent Contractors	Total
Officers	14	—	14
Administration	222	125	347
Brokers	45	473	518
Traders	14	0	14
Investment Bankers	10	0	10
Advisors	0	16	16
Accountants and tax preparers	85	6	91
Totals	390	620	1,010

None of our personnel are covered by a collective bargaining agreement. We consider our relationships with our employees to be good. Any future increase in the number of employees will depend upon the growth of our business. Our registered representatives are required to take examinations administered by FINRA and state authorities in order to qualify to transact business and are required to enter into agreements with us obligating them, among other things, to adhere to industry rules and regulations, our subsidiaries' supervisory procedures and not to solicit other employees or brokers in the event of termination.

Seasonality and Backlog

Other than our tax preparation business, we are not subject to significant seasonal fluctuations, and there are no material backlogs in our business. Because most tax returns are filed during the period from February through April of each year, most revenues from our tax preparation and related services and products will be earned during this period.

Research and Development and Environmental Matters

We did not incur any research and development expenses during the last three fiscal years. We do not incur any significant costs or experience any significant effects as a result of compliance with federal, state and local environmental laws.

Available Information

We maintain a website with the address www.yournational.com. We make available free of charge through our Internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and any amendments thereto, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We are not including the information on our website as a part of, nor incorporating it by reference into, this report. Additionally, the SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including us) file electronically with the SEC. The SEC's website address is <http://www.sec.gov>.

Item 1A. RISK FACTORS

The financial statements contained in this report and the related discussions describe and analyze our financial performance and condition for the periods indicated. For the most part, this information is historical. Our prior results, however, are not necessarily indicative of our future performance or financial condition. We, therefore, have included the following discussion of certain factors that could affect our future performance or financial condition. These factors could cause our future performance or financial condition to differ materially from our prior performance or financial condition or from management's expectations or estimates of our future performance or financial condition. These factors, among others, should be considered in assessing our future prospects and prior to making an investment decision with respect to our stock. The COVID-19 pandemic has heightened, and in some cases manifested, certain of the risks we normally face in operating our business. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations.

Risks Related to Our Business

We may require additional financing but may not be able to obtain it, which could impair our business and financial condition.

In order to achieve profitability, we periodically may need to obtain additional financing, either through borrowings, public offerings, private offerings, or make acquisitions or some type of business combination (e.g., merger, buyout, etc.). The availability of additional financing, including access to the credit and capital markets, depends on a variety of factors, such as conditions in the debt and equity markets, the general availability of credit, the volume of securities trading activity and the overall availability of credit to the financial services sector. We may not be successful in any attempts to obtain additional financing. Failure to generate adequate cash from our operations or find sources of funding would require us to scale back or curtail our operations, including limiting our efforts to recruit additional registered representatives or acquire other businesses, and would have an adverse impact on our business and financial condition.

Our investment banking activities place our capital at risk and subject us to potential liability under the securities laws.

Participation in an underwriting syndicate or a selling group involves both economic and regulatory risks. An underwriter may incur losses if it is unable to resell the securities it has committed to purchase or if it is forced to liquidate its commitment at less than the purchase price. In addition, under federal securities laws, other laws and court decisions with respect to underwriters' liabilities and limitations on the indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for misstatements or omissions of material facts in prospectuses and other communications with respect to such offerings. Acting as a managing underwriter increases these risks. Underwriting commitments constitute a charge against net capital and our ability to make underwriting commitments may be limited by the requirement that NSC, WEC and FSIC must at all times be in compliance with the Net Capital Rule.

Our risk management policies and procedures may leave us exposed to unidentified risks or an unanticipated level of risk.

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not accurately predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot ensure that our policies and procedures will effectively and accurately record and verify this information. We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. We believe that we are able to evaluate and manage the market, credit and other risks to which we are exposed. Nonetheless, our ability to manage risk exposure can never be completely assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments could have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in our credit risk to customers as well as to third parties and increases in general systemic risk.

We depend on senior employees and the loss of their services could harm our business.

We depend on the continued services of our management team, as well as our ability to hire additional members of management, and to retain and motivate other officers and key employees. We may not be able to find appropriate replacements if the need should arise. Due to the regulated nature of some of our businesses, some of our executive officers, or other key personnel, could become subject to suspensions or other limitations on the scope of their services to us from time to time. If we lose the services of any executive officers or other key personnel, we may not be able to manage and grow our operations effectively, enter new brokerage markets or develop new products.

Failure to comply with the net capital requirements could subject us to sanctions imposed by the SEC or FINRA.

NSC, WEC and FSIC are subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital. At September 30, 2020, NSC had net capital of \$3,812,891 which was \$2,812,891 in excess of its required minimum net capital of \$1,000,000, WEC had net capital of \$467,947 which was \$305,992 in excess of its required minimum net capital of \$161,955, and FSIC had net capital of \$117,538 which was \$112,538 in excess of its required minimum net capital of \$5,000. WEC's ratio of aggregate indebtedness to net capital was 5.2 to 1, FSIC's ratio of aggregate indebtedness to net capital was 0.2 to 1.

The Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with the Net Capital Rule limits those operations of broker-dealers that require the intensive use of their capital, such as underwriting commitments and principal trading activities. The Net Capital Rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness, such as subordinated debt, as it matures. FINRA may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, FINRA may immediately restrict or suspend certain or all of the activities of a broker-dealer. NSC, WEC and FSIC may not be able to maintain adequate net capital, or their net capital may fall below the minimum requirements established by the SEC, which could subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. In addition, if the Net Capital Rule is changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain present levels of business, which could have a material adverse effect on our business.

Our business could be adversely affected by a breakdown in the financial markets.

The business of NSC, WEC and NAM is materially affected by conditions in the financial markets and the economy generally, both in the United States and elsewhere around the world. Many factors or events could lead to a breakdown in the financial markets including political turmoil, war, terrorism, natural catastrophes and other types of disasters. These types of events could cause people to begin to lose confidence in the financial markets and their ability to function effectively. If the financial markets are unable to effectively prepare for these types of events and ease public concern over their ability to function, our revenues would likely decline and our operations would likely be adversely affected.

Damage to our reputation could damage our businesses.

Maintaining our reputation is critical to attracting and maintaining clients, investors and associates. If we fail to address, or appear to fail to address, issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues may include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, cybersecurity and privacy, record-keeping, and sales and trading practices, the failure to sell securities we have underwritten at anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our products. Failure to maintain appropriate service and quality standards, or a failure or perceived failure to treat clients fairly can result in client dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and reputational harm. Negative publicity about us, whether or not true, may also harm our future business prospects.

The number and size of the transactions in which we provide services may decline in adverse market or economic conditions, which may adversely affect our revenues, results of operations and stockholders' equity.

Unfavorable financial or economic conditions may reduce the number and size of the transactions in which we provide underwriting services, merger and acquisition consulting and other services. Our investment banking revenues, in the form of financial advisory, placement agent and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. Additionally, a downturn in market conditions could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenues we receive from commissions and spreads. We must review customer relationships for impairment whenever events or circumstances indicate that impairment may be present. A significant decrease in revenues or cash flows derived from acquired customer relationships could result in a material, non-cash write-down of customer relationships. Such impairment may have a material adverse impact on our results of operations and stockholders' equity.

The novel coronavirus pandemic (COVID-19) and the response to it have negatively affected the global economy and financial markets and have disrupted and may further disrupt our operations and our registered representatives' operations, and we expect these circumstances, and potentially other, related circumstances that are unpredictable at this time, to have a material adverse effect on our business, operations and financial condition.

In December 2019, an outbreak of respiratory illness caused by a novel coronavirus, commonly referred to as COVID-19, began in Wuhan, China. The World Health Organization has declared the outbreak a pandemic and a global public health emergency. In addition to those who have been directly affected, millions more have been affected by government efforts in the United States and around the world to slow the spread of the pandemic through quarantines, travel restrictions, heightened border scrutiny and other measures. The pandemic and measures taken in response by governments, private industry, individuals and others have also had significant direct and indirect adverse impacts on businesses and commerce as financial markets have been disrupted; facilities and production have been suspended; and demand for certain goods and services has spiked, while demand for other goods and services has decreased significantly.

The Company's management put cost-savings plans into effect to mitigate the cash drain that potential, downward pressure on its business might cause. In particular, the Company's management made the very difficult decision to downsize its staff, significantly reduce compensation for many employees and implement moratoriums in variable spending categories.

The future progression of the pandemic and its effects on our business and operations are highly uncertain. The pandemic has significantly impacted market valuations, resulting in significant inventory losses, and caused investment banking deals to be delayed, deferred and/or canceled, and may continue to do so. In addition, a sustained and continuing market downturn could lead to declines in customer trading volumes and, therefore, to a decline in the revenues we receive from commissions and transactions fees and clearing services. Furthermore, investment advisory fees have been and may continue to be negatively impacted by decreased market valuations. These developments have negatively impacted, and will likely continue to negatively impact, our liquidity position and our growth strategy.

We have experienced, and expect to continue to experience, disruptions in our operations and our registered representatives' operations. If members of our management and other key personnel in critical functions across our organization are unable to perform their duties or have limited availability due to COVID-19, we may not be able to execute on our business strategy and/or our operations may be negatively impacted. We may also experience limitations in employee resources, including because of the downsizing and salary reductions we have completed, sickness of employees or their families or the desire of employees to avoid contact with individuals or large groups of people.

The coronavirus pandemic continues to rapidly evolve. There may be other material adverse impacts on our business, operations and financial condition that are unpredictable at this time, including difficulties in recruiting registered representatives and qualified employees during the pandemic and once it subsides. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on our employees, registered representatives, clients and the markets in which we operate our businesses, all of which are uncertain at this time and cannot be predicted.

We may experience trading losses due to market fluctuations and volatility, which may reduce our revenues and profitability.

Financial markets are susceptible to rapid depreciation in asset values accompanied by a reduction in asset liquidity. Our revenue and profitability may be adversely affected by declines in the volume of securities transactions and in market liquidity. Additionally, our profitability may be adversely affected by losses from the trading or underwriting of securities or failure of third parties to meet commitments. We act as a market maker in publicly traded shares of common stock. In market making transactions, we undertake the risk of price changes on the stock we hold in positions, or being unable to resell the shares of common stock we hold, or being unable to purchase the common stock we have sold but not yet purchased. These risks are heightened by the illiquidity of many of the shares of common stock we trade and/or in which we make a market. Any losses from our trading activities, including as a result of unauthorized trading by our employees, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Lower securities prices may also result in a reduced volume of transactions, as well as losses from declines in the market value of common stock held for trading purposes. During periods of declining volume and revenue, our profitability would be adversely affected. Declines in market values of shares of common stock and the failure of issuers and third parties to perform their obligations can result in illiquid markets.

We generally maintain trading and investment positions in the equity markets. To the extent that we own assets, i.e., have long positions, a downturn in those markets could result in losses from a decline in the value of such long positions. Conversely, to the extent that we have sold assets that we do not own, i.e., have short positions in any of those markets, an upturn could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market.

We may, from time to time, have an arbitrage trading strategy consisting of holding a long position in one asset and a short position in another from which we expect to earn revenues based on changes in the relative value of the two assets. If, however, the relative value of the two assets changes in a direction or manner that we did not anticipate or against which we have not hedged, we might realize a loss in those paired positions. In addition, we maintain trading positions that can be adversely affected by the level of volatility in the financial markets.

We are a holding company and depend on payments from our subsidiaries.

We depend on dividends, distributions and other payments from our subsidiaries to fund our obligations. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, NSC and WEC are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations. In addition, because our interests in our subsidiaries consist of equity interests, our rights may be subordinated to the claims of the creditors of these subsidiaries.

We face strong competition from other financial firms, some of which have greater resources than we do, which may have a negative effect on our business.

We compete directly with national and regional full-service broker-dealers and a broad range of other financial service firms, including banks and insurance companies. Competition has increased as smaller securities firms have been acquired by or merged into other firms. Mergers and acquisitions have increased competition from these firms, many of which have significantly greater financial, technical, marketing, name recognition and other resources than we do. Many of these firms offer their customers more products and research than we currently offer. These competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. We also face competition from companies offering discount and/or electronic brokerage services, including brokerage services provided over the Internet, which we currently do not offer or intend to offer in the foreseeable future. These competitors may have lower costs or provide more services, and may offer their customers more favorable commissions, fees or other terms than those offered by us. If we are unable to compete effectively with our competitors, our operating results could be adversely affected.

The continued growth of electronic trading and the introduction of new technologies is changing our market-making business and presenting new challenges. Securities, futures and options transactions are increasingly occurring electronically, through alternative trading systems. The trend toward alternative trading systems will likely continue to accelerate. This acceleration could further increase program trading, increase the speed of transactions and decrease our ability to participate in transactions as principal, which would reduce the profitability of our market-making business. Some of these alternative trading systems compete with our market-making business, and we may experience continued competitive pressures in these and other areas.

Government initiatives that simplify tax return preparation could reduce the need for tax preparation services as a third party tax return preparer.

Many taxpayers seek assistance from paid tax return preparers such as our National Tax subsidiary, because of the level of complexity involved in the tax return preparation and filing process. From time to time, government officials propose measures seeking to simplify the preparation and filing of tax returns or to provide additional assistance with respect to preparing and filing such tax returns. The passage of any measures that significantly simplify tax return preparation or otherwise reduce the need for a third party tax return preparer could reduce demand for our services which may adversely affect operating results. Additionally, from time to time, the United States Treasury Department and the IRS adopt policy and rule changes and other initiatives that result in a decrease in the number of tax returns filed or reduce the size of tax refunds. Such changes in the tax law could reduce demand for our services, causing our operating results to be adversely affected.

If we do not continue to develop and enhance our services in a timely manner, our business may be harmed.

Our future success will depend on our ability to develop and enhance our services and add new services. We operate in a very competitive industry in which the ability to develop and deliver advanced services through the Internet and other channels is a key competitive factor. There are significant risks in the development of new or enhanced services, including the risks that we will be unable to:

- effectively use new technologies;
- adapt our services to emerging industry or regulatory standards; or
- market new or enhanced services.

If we are unable to develop and introduce new or enhanced services quickly enough to respond to market or customer requirements or to comply with emerging industry standards, or if these services do not achieve market acceptance, our business could be seriously harmed.

We are currently subject to extensive securities regulation and the failure to comply with these regulations could subject us to penalties or sanctions.

The securities industry and our business are subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. We are also regulated by industry self-regulatory organizations, such as FINRA. NSC, WEC and FSIC are registered broker-dealers with the SEC and member firms of FINRA. Broker-dealers are subject to regulations which cover all aspects of the securities business, including sales methods and supervision, trading practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, record keeping, and the conduct of directors, officers and employees. Changes in laws or regulations or in governmental policies could cause us to change the way we conduct our business, which could adversely affect our businesses and results of operations.

Compliance with many of the regulations applicable to our subsidiaries involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. These regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements. If we are found to have violated an applicable regulation, administrative or judicial proceedings may be initiated against us that may result in a censure, fine, civil penalties, issuance of cease-and-desist orders, the deregistration or suspension of our regulated activities, the suspension or disqualification of our officers or employees, or other adverse consequences. The imposition of any of these or other penalties could have a material adverse effect on our operating results and financial condition.

We rely on clearing brokers and unilateral termination of the agreements with these clearing brokers could disrupt our business.

NSC and WEC are introducing brokerage firms that use third party clearing brokers to process their securities transactions and maintain customer accounts. The clearing brokers also provide billing services, extend credit and provide for control and receipt, custody and delivery of securities. We depend on the operational capacity and ability of the clearing brokers for the orderly processing of transactions. In addition, by engaging the processing services of a clearing firm, we are exempt from some capital reserve requirements and other regulatory requirements imposed by federal and state securities laws. If the clearing agreements are unilaterally terminated for any reason, we would be forced to find alternative clearing firms without adequate time to negotiate the terms of a new clearing agreement and without adequate time to plan for such change. There can be no assurance that if there were a unilateral termination of a clearing agreement that we would be able to find an alternative clearing firm on acceptable terms or at all.

Our clearing brokers extend credit to our clients and we are liable if the clients do not pay.

We permit our clients to purchase securities on a margin basis or sell securities short, which means that the clearing firm extends credit to the client secured by cash and securities in the client's account. During periods of volatile markets, the value of the collateral held by clearing brokers could fall below the amount borrowed by the client. If margin requirements are not sufficient to cover losses, the clearing brokers sell or buy securities at prevailing market prices, and may incur losses to satisfy client obligations. We have agreed to indemnify our clearing brokers for losses they incur while extending credit to our clients.

Credit risk exposes us to losses caused by financial or other problems experienced by third parties.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include trading counterparts, customers, clearing agents, exchanges, clearing houses, and other financial intermediaries as well as issuers whose securities we hold. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from holding securities of third parties, executing securities trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries, and extending credit to clients through bridge or margin loans or other arrangements. Significant failures by third parties to perform their obligations to us could adversely affect our revenues and perhaps our ability to borrow in the credit markets.

Adverse results of litigation, including under the securities laws, would result in financial losses and divert management's attention from our business.

Many aspects of our business involve substantial risks of liability. There is a risk of litigation and arbitration within the securities industry, including class action suits seeking substantial damages. We are subject to actual and potential claims by dissatisfied customers, including claims alleging they were damaged by improper sales practices such as unauthorized trading, sale of unsuitable securities, use of false or misleading statements in the sale of securities, mismanagement and breach of fiduciary duty. Even if the allegations involve acts by our retail brokers that we did not authorize, we could be liable if we fail to adequately supervise their conduct. As an underwriter, we may be subject to substantial potential liability under federal and state laws and court decisions, including liability for material misstatements and omissions in securities offerings. We may be required to contribute to a settlement, defense costs or a final judgment in legal proceedings or arbitrations involving a past underwriting and in actions that may arise in the future. We carry "Errors and Omissions" insurance to protect against such legal actions, however, our policy is limited in items and amounts covered and there can be no assurance that it will cover a particular complaint. Defending such actions would divert management's attention from running our business, and the adverse resolution of any legal proceeding involving us and/or our subsidiaries could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.

Firms in the financial services industry have been operating in a difficult regulatory environment which we expect will become even more stringent in light of recent well-publicized failures of regulators to detect and prevent fraud. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including, but not limited to, the authority to fine us and to grant, cancel, restrict or otherwise impose conditions on the right to carry on particular businesses. For example, a failure to comply with the obligations imposed by the Exchange Act on broker-dealers and the Investment Advisers Act of 1940 on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or FINRA or other self-regulatory organizations that supervise the financial markets. Substantial legal liability or significant regulatory action against us could have adverse financial effects on us or cause reputational harm to us, which could harm our business prospects.

Asset management businesses have experienced a number of highly publicized regulatory inquiries which have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisors and broker-dealers. NAM is registered as an investment advisor with the SEC and the regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our asset management business, and may otherwise limit our ability to engage in certain activities. In addition, the SEC staff has conducted studies with respect to soft dollar practices in the brokerage and asset management industries and proposed interpretive guidance regarding the scope of permitted brokerage and research services in connection with soft dollar practices. The SEC staff has indicated that it is considering additional rulemaking in this and other areas, and we cannot predict the effect that additional rulemaking may have on our asset management or brokerage business or whether it will be adverse to us. Certain investment advisors and/or the investment management products they advise are also subject to regulations by various regulatory authorities outside the U.S. including the U.K. FCA, the Swedish FCA and the European Securities and Market Authority and may indirectly be subject to MiFID II regulations. Moreover, recent rulemaking by the SEC and certain non-U.S. regulatory bodies have imposed trading restrictions and reporting requirements on short selling, which have impacted certain of the investment strategies implemented on behalf of the Company's Funds, and continued restrictions on or further regulations of short sales could also negatively impact their performance. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

It is difficult to predict what other changes may be instituted in the future in the regulation of us or the markets in which we invest, or the counterparties with which we do business, in addition to those changes already proposed or adopted in the U.S. or other countries. Any such regulation could have a material adverse effect on our business prospect.

Finally, financial services firms are subject to numerous perceived or actual conflicts of interest, which have drawn and which we expect will continue to draw scrutiny from the SEC and other federal and state regulators. For example, the research areas of investment banks have been and remain the subject of heightened regulatory scrutiny, which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms. Regulations have also been focusing on potential conflicts of interest or issues relating to impermissible disclosure of material nonpublic information. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if it fails to do so. Such policies and procedures to address or limit actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

The potential for conflicts of interest within the Company, and a failure to appropriately identify and deal with conflicts of interest could adversely affect our businesses.

Due to the combination of our investment management and broker-dealer businesses, we face an increased potential for conflicts of interest, including situations where our services to a particular client or investor or our own interests in our investments conflict with the interests of another client. Such conflicts may also arise if our broker-dealer business has access to material non-public information that may not be shared with our investment management business or vice versa. Further, our relationship with B. Riley as both a competitor and significant stockholder gives rise to the potential for additional conflicts of interest. Additionally, our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions.

Appropriately identifying and dealing with conflicts of interest is complex and difficult, and the willingness of clients to enter into transactions or engagements in which such a conflict might arise may be affected if we fail to identify and appropriately address potential conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or enforcement actions.

We face significant competition for registered representatives.

Our retail brokerage business is dependent upon a large number of both independent contractor and employee registered representatives. We are exposed to the risk that a large group of registered representatives could decide to affiliate with another firm and we could be unable to recruit suitable replacements, which could have a material adverse impact on our ability to generate revenue in the retail brokerage business.

A change in the “independent contractor” status of registered representatives would adversely affect us.

Independent contractor registered representatives operate from their own offices and are responsible in large part for the costs and expenses involved in their operations. As of September 30, 2020, we had a total of approximately 1,010 associates, of which 620 were independent contractors. The enactment of any legislation that would affect the eligibility requirements for independent contractor status could have a significant effect on this business model and lead to additional costs and expenses, which could have a material adverse on our results of operations.

We run the risk that employee and independent contractor misconduct could occur.

Misconduct by employees and independent contractors could include:

- employees and independent contractors binding us to transactions that exceed authorized limits or present unacceptable risks to us;
- employees and independent contractors hiding unauthorized or unsuccessful activities from us; or
- the improper use of confidential information.

These types of misconduct could result in unknown and unmanaged risks or losses to us including regulatory sanctions and serious harm to our reputation. The precautions we take to prevent and detect these activities may not be effective. If employee and independent contractor misconduct does occur, our business operations could be materially adversely affected.

Internet and internal computer system failures could damage our reputation and harm our business.

We are increasingly dependent upon technology systems and data to operate our business. In particular, the COVID-19 pandemic has caused us to modify our business practices. As a result, we are increasingly dependent upon our technology systems to operate our business and our ability to effectively manage our business depends on the security, reliability and adequacy of our technology systems and data.

Our internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. The size and complexity of our information technology systems and the confidential information stored on those systems, including financial information of our clients, make such systems vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third-party vendors and/or business partners, or from cyber-attacks by malicious third parties. Cyber-attacks are increasing in their frequency, sophistication and intensity, and have become increasingly difficult to detect. Cyber-attacks could include the deployment of harmful malware, ransomware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information. Cyber-attacks also could include phishing attempts or e-mail fraud to cause payments or information to be transmitted to an unintended recipient.

While we have not experienced a system failure, accident, cyber-attack or security breach that has resulted in a material interruption in our operations to date, if such an event were to occur, it could result in a material disruption of our development programs and our business operations. Additionally, any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our clients or employees, could harm our reputation, cause us not to comply with federal and/or state breach notification laws and foreign law equivalents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information. Security breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. While we have implemented security measures to protect our information technology systems and infrastructure, there can be no assurance that such measures will prevent service interruptions or security breaches that could adversely affect our business and cause financial losses, liability to clients, regulatory sanctions and damage to our reputation.

Procedures and requirements of the Patriot Act and similar laws may expose us to significant costs or penalties.

As a financial services firm, we are subject to laws and regulations, including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”), that require that we know our customers and monitor transactions for suspicious financial activities. The cost of complying with the Patriot Act and related laws and regulations is significant. We face the risk that our policies, procedures, technology and personnel directed toward complying with the Patriot Act and similar laws and regulations are insufficient and that we could be subject to significant criminal and civil penalties or reputational damage due to noncompliance. Such penalties and subsequent remediation costs could have a material adverse effect on our business, financial condition and results of operations and cash flows.

Risks Related to our Common Stock

Our principal stockholders, including B. Riley, as well as our directors and officers, control a large percentage of shares of our common stock, and can control our corporate actions.

As of September 30, 2020, B. Riley owned approximately 45.2% of our issued and outstanding shares of common stock. As a result B. Riley may be able to control most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions, subject to restrictions on B. Riley's ability to take certain actions, including with respect to our Board, as set forth in the B. Riley Agreement. The concentration of the ownership of the shares of our common stock may also serve to limit the trading volume of our common stock. The common stock of B. Riley is traded on the Nasdaq Capital Market.

Under our agreement with B. Riley, B. Riley agreed to certain customary standstill provisions, effective as of the date of the B. Riley Agreement through December 31, 2021. Additionally, we have granted to B. Riley the right to appoint up to two B. Riley representatives to attend meetings of the Board and any committee thereof in a non-voting observer capacity. The B. Riley Agreement further permits B. Riley to participate pro rata in any bona fide common stock equity offering by us if the offering price of the Company’s common stock in such offering is equal to or less than \$3.25 per share, as adjusted for stock splits, stock dividends, stock combinations and similar events, subject to certain exceptions. This participation right will end upon the earlier of (x) the end of the Standstill Period and (y) a change in control of the Company, as defined in the B. Riley Agreement. On April 30, 2020, B. Riley and the Company entered into a limited waiver of certain provisions of the B. Riley Agreement and in connection therewith, B. Riley sent the Board a letter containing a proposal regarding the Company. The Board formed a Special Committee of non-executive, independent directors to review the B. Riley proposal.

Our common stock has low trading volume and any sale of a significant number of shares is likely to depress the trading price.

Our common stock is traded on the Nasdaq Capital Market under the symbol “NHLD”. Traditionally, the trading volume of our common stock has been limited. For the 30 trading days ending on September 30, 2020, the average daily trading volume was approximately 10,000 shares per day. During such 30-day period the closing price of our common stock ranged from a high of \$2.53 to a low of \$2.08. We expect that this limited trading volume will continue due to the concentrated ownership of our common stock by B. Riley. Because of this limited trading volume, holders of our common stock may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

The price of our common stock is volatile.

The price of our common stock has fluctuated substantially. The market price of our common stock may be highly volatile as a result of factors specific to us and the securities markets in general. Factors affecting volatility may include:

- variations in our annual or quarterly financial results or those of our competitors;
- the impact of the COVID-19 pandemic;
- economic conditions in general; and
- changes in applicable laws or regulations, or their judicial or administrative interpretations affecting us or our subsidiaries or the securities industry.

In addition, volatility of the market price of our common stock is further affected by its thinly-traded nature.

Our Board can issue shares of “blank check” preferred stock without further action by our stockholders.

Our Board has the authority, without further action by our stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions in each series of the preferred stock, including:

- dividend rights;
- conversion rights;
- voting rights, which may be greater or lesser than the voting rights of our common stock;
- rights and terms of redemption;
- liquidation preferences; and
- sinking fund terms.

At September 30, 2020, there are no shares of our preferred stock outstanding. The issuance of shares of preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company.

The Nasdaq Capital Market imposes listing standards on our common stock that we may not be able to fulfill, thereby leading to a possible delisting of our common stock.

As a listed Nasdaq Capital Market company, we are subject to rules covering, among other things, certain major corporate transactions, the composition of our Board and the committees thereof, the holding of an annual meeting of our stockholders, minimum bid price of our common stock and minimum stockholders equity. The failure to meet these or other Nasdaq Capital Market requirements may result in the de-listing of our common stock from the Nasdaq Capital Market, which could adversely affect the liquidity and market price of our common stock.

On September 9, 2020, the Company notified Nasdaq of Nassos Michas’s resignation from the Board and the Company’s resulting non-compliance with the majority independent director requirement for continued listing on the Nasdaq Capital Market, as set forth in Listing Rule 5605(b)(1) (the “Majority Independence Rule”). On September 10, 2020, the Company received written notice from Nasdaq acknowledging the Company’s non-compliance with the Majority Independence Rule. In accordance with the Majority Independence Rule, the Company has until the earlier of its next annual meeting of stockholders or September 7, 2021 to regain compliance with the Majority Independence Rule, provided, however, that if the Company’s next annual meeting of stockholders is held on or before March 8, 2021, the Company shall have until March 8, 2021 to regain compliance with the Majority Independence Rule (the “Cure Period”).

The Board intends to identify a suitable replacement candidate for Mr. Michas’s position on the Board and to regain compliance with the Majority Independence Rule prior to the expiration of the applicable Cure Period but there can be no assurance it will be able to do so.

We do not expect to pay any cash dividends on our common stock in the foreseeable future.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. We expect to retain all future earnings, if any, for investment in our business.

Item 2. PROPERTIES

We own no real property. Our corporate headquarters are located in space leased by the Company in New York, New York and Boca Raton, Florida. Independent contractors individually lease the branch offices that are operated by those independent contractors. We also lease additional office space, all of which are shown in the table below.

Leases expire at various times through May 2032. We believe the rent at each of our locations is reasonable based on current market rates and conditions. We consider the facilities of our company and those of our subsidiaries to be reasonably insured and adequate for the foreseeable needs of our company and our subsidiaries.

The following chart provides information related to these lease obligations as of September 30, 2020:

Address	Approximate Square Footage	Approximate Annual Base Lease Rental	Lease Termination Date
175 Federal St. 6 & 8, Boston, MA	23,088	\$ 1,292,928	31-Jul-21
200 Vesey Street, 25th Floor, New York, NY	15,988	\$ 767,424	27-Feb-26
600 University Street, Suite 2900, Seattle, WA	7,620	\$ 318,135	31-Oct-26
5000 T-Rex Avenue, Suite 300, Boca Raton, FL	16,726	\$ 297,221	31-May-32
2875 NE 191st Street, Suite 601, Aventura, FL	5,208	\$ 263,577	31-May-21
61 South Paramus Road, Suite 530, Paramus, NJ	7,968	\$ 254,976	31-May-30
14802 N. Dale Mabry Blvd., Suite 101 and 204, Tampa, FL	7,038	\$ 165,499	31-Dec-21
35-30 Francis Lewis Blvd., Suite 205, Flushing, NY	4,600	\$ 155,320	31-Aug-21
2711 North Haskell Avenue, Suite 2950, Dallas, TX	6,724	\$ 135,180	31-Jan-30
484 Temple Hill Road, Suite 104, New Windsor, NY	6,204	\$ 122,529	30-Sep-30
4000 Route 66, Tinton Falls, NJ	6,721	\$ 100,659	30-Nov-20
100 Franklin Street, Boston, MA	1,982	\$ 101,082	28-Feb-24
11 Raymond Ave, Suite 22, Poughkeepsie, NY	3,558	\$ 98,201	30-Jun-23
540 Gidney Ave, Newburgh, NY	4,535	\$ 95,034	30-Jun-21
500 Portion Rd, Suite 2 & 4, Lake Ronkonkoma, NY	3,727	\$ 93,163	1-Jan-21
181 East Jericho Turnpike, 2nd Floor, Mineola, NY	3,165	\$ 91,728	30-Apr-25
2050 Eastchester Road, Suite 1-A, Bronx, NY	3,220	\$ 89,116	31-Oct-22
2101 Fourth Avenue, Suite 910, Seattle, WA	2,881	\$ 86,430	30-Sep-25
1550-1556 Third Ave., Suite 306, New York, NY	1,212	\$ 74,445	30-Nov-20
3535 Military Trail, Suite 201 & 202, Jupiter, FL	2,944	\$ 63,679	30-Apr-22
1200 N. Federal Highway, Suite 215, Boca Raton, FL	3,214	\$ 58,881	31-Mar-24
5839 Main St, Williamsville, NY	3,159	\$ 58,568	31-Dec-23
711 North Orlando Avenue, Suite 101, Maitland, FL	1,737	\$ 41,688	31-Jul-25
155 N. Lake Avenue, 8th Floor, Pasadena, CA	100	\$ 33,828	31-Jul-21
7370 College Parkway, Ft. Myers, FL	1,448	\$ 25,702	30-Nov-24
44 Stelton Rd Suite 235, Piscataway, NJ	1,242	\$ 23,158	month to month
10101 W Sample Rd, Coral Springs, FL	555	\$ 23,088	31-Dec-21
50 Braintree Hill Park, Suite 105, Braintree, MA	420	\$ 15,744	month to month
3301 Bonita Beach Rd, Suite 203, Bonita Beach, FL	982	\$ 12,766	31-Aug-24
410 Broadway, Suite 180, Laguna Beach, CA	95	\$ 9,000	30-Apr-21

Item 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are defendants or respondents in various pending and threatened arbitrations, administrative proceedings and lawsuits seeking compensatory damages. Several such cases have no stated alleged damages. Claim amounts are infrequently indicative of the actual amounts the Company will be liable for, if any. Further, the Company has a history of collecting amounts awarded in these types of matters from its brokers that are still affiliated, as well as from those that are no longer affiliated. Many of these claimants also seek, in addition to compensatory damages, punitive or treble damages, and all seek interest, costs and fees. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and the ultimate outcome of these matters cannot be determined at this time.

On July 3, 2019, a lawsuit was filed against National Securities Corporation, National Asset Management, Inc., the Company, the Company's current board members and certain former board members, certain officers of the Company, John Does 1-10, and the Company as a nominal defendant, in the United States District Court for the Southern District of New York, captioned *Kay Johnson v. National Securities Corporation, et al., Case No. 1:19-cv-06197-LTS*. The complaint presents three purported derivative causes of action on behalf of the Company, and five causes of action by the plaintiff directly. As part of the derivative claims, the complaint generally alleges that certain of the individual defendants failed to establish and maintain adequate internal controls to ensure that the Board acted in accordance with its fiduciary duties to prevent and uncover alleged legal and regulatory misconduct and wrongdoing on the part of a National officer. As part of its claims brought directly by the plaintiff, the complaint generally alleges that certain individual and corporate defendants wrongfully terminated the employment of the plaintiff in violation of the Dodd-Frank Act and applicable common law, or conspired to do so. The complaint further alleges that certain corporate defendants violated the Equal Pay Act with regards to the plaintiff's compensation. The complaint seeks monetary damages in favor of the Company, an order directing the Company's board members to take actions to enhance the Company's governance, compensatory and punitive damages in favor of the plaintiff, and attorneys' fees and costs. On February 2, 2020, the plaintiff filed an amended complaint presenting additional causes of action. The Company has notified its insurer of the lawsuit and believes it has valid defenses to the asserted claims of the complaint. On March 18, 2020, the defendants filed a motion to dismiss the amended complaint. The plaintiff filed an opposition to the defendants' motion to dismiss on April 15, 2020, and the defendants filed a reply in further support of the motion to dismiss on May 6, 2020.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

On March 3, 2015, our common stock began trading on the Nasdaq Capital Market under the symbol "NHL.D."

Stockholders

As of November 30, 2020, we had approximately 280 stockholders of record and we estimated our total number of beneficial stockholders at approximately 820.

Dividends

Delaware law authorizes our Board to declare and pay dividends with respect to our common stock either out of our surplus (as defined in the Delaware Corporation Law) or, in case there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year; provided, however, that no dividend may be paid out of net profits unless our capital exceeds the aggregate amount represented by the issued and outstanding stock of all classes having a preference in the distribution of assets. Our ability to pay dividends in the future also may be restricted by the obligations of our broker-deal subsidiary to comply with the net capital requirements imposed on broker-dealers by the SEC and FINRA. We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. No cash dividends have been declared or paid by us with respect to our common stock during the past three fiscal years.

Issuer Purchases of Equity Securities

In August 2015, the Board authorized the repurchase of up to \$2 million of our common stock. Share repurchases, if any, could be made using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The Board did not stipulate an expiration date for this repurchase, though we did agree to suspend this repurchase program in a merger agreement among our company, Fortress and FBIO Acquisition, dated as of April 27, 2016 (as amended, the "Merger Agreement"). During the years ended September 30, 2020 and 2019, we did not repurchase any shares.

Subsequent to September 30, 2020 and through the date of the issuance of this report, we had not acquired any additional shares.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Report may contain certain statements of a forward-looking nature relating to future events or future business performance. Any such statements that refer to our estimated or anticipated future results or other non-historical facts are forward-looking and reflect our current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, risks and uncertainties detailed in Item 1 above. Any forward-looking statements contained in or incorporated into this Annual Report on Form 10-K speak only as of the date of this Report. We undertake no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

We are engaged in independent brokerage and advisory services and asset management services, investment banking, equity research and institutional sales and trading, through our broker-dealer subsidiaries, NSC and WEC. We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our retail, corporate and institutional clients. Our wholly-owned subsidiary, NAM, is a federally-registered investment adviser that provides asset management advisory services to clients for a fee based upon a percentage of assets managed. We also provide tax preparation services through National Tax, which provides tax preparation services to individuals, predominantly in the middle and upper income tax brackets and accounting services to small and midsize companies.

NSC and WEC are subject to regulation by, among others, the SEC and FINRA, and are members of SIPC. In addition, NSC is licensed to conduct its brokerage activities in all 50 states, plus the District of Columbia and Puerto Rico and the U.S. Virgin Islands. National Tax is also subject to regulation by, among others, the IRS.

As of September 30, 2020, we had approximately 1,010 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our 30 Company offices located in New York, New Jersey, Florida, Texas, Massachusetts and Washington, we had approximately 100 other registered offices, owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses.

Our registered representatives offer a broad range of investment products and services. These products and services allow us to generate both commissions (from transactions in securities and other investment products) and fee income (for providing investment advisory services, namely managing clients' accounts). The investment products and services offered include but are not limited to stocks, bonds, mutual funds, annuities, insurance, and managed money accounts.

Proposal

On April 30, 2020, B. Riley and the Company entered into a limited waiver of certain provisions of the standstill agreement with B. Riley and in connection therewith, B. Riley amended its Schedule 13D filing relating to the Company and sent the Board a letter containing a proposal regarding the Company. The Board formed a Special Committee of non-executive, independent directors to review the B. Riley proposal.

COVID-19 Update and Action

The COVID-19 outbreak continues to cause significant disruption in business activity and the financial markets both globally and in the United States. As a result of the spread of COVID-19, economic uncertainties have arisen which have negatively impacted and are likely to continue to negatively impact our businesses, financial condition, results of operations, cash flows, strategies and prospects. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on our clients, employees, vendors and the markets in which we operate our businesses, all of which are uncertain at this time and cannot be predicted. The extent to which COVID-19 may impact our financial condition or results of operations cannot be reasonably estimated at this time.

The Company's management put cost-savings plans into effect to mitigate the cash drain that potential, downward pressure on its business might cause. In particular, the Company's management made the very difficult decision to downsize its staff, significantly reduce compensation for many employees and implement moratoriums in variable spending categories.

We continue to be cautious due to events that may be driven by the evolution of this pandemic that are unknown, are highly uncertain, and cannot be predicted as it relates to the Company's clients, employees, vendors, and the markets in which the Company operates its businesses.

Paycheck Protection Program

On April 10, 2020, NSC entered into the NSC Note in the principal amount of \$5,523,738 with the Lender, pursuant to which the Lender agreed to make the NSC Loan offered by the SBA pursuant to the CARES Act to qualified small businesses. On April 15, 2020, WEC also entered into the WEC Note in the principal amount of \$973,062 with the Lender, pursuant to which the Lender agreed to make the WEC Loan.

The interest rate on each PPP Note is a fixed rate of 1% per annum. Interest is calculated by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. The applicable borrower is required to make monthly payments commencing on the first day of the first full calendar month following the end of the Deferral Period, and such payments shall continue to be due and payable on the first day of each calendar month thereafter until the Maturity Date, which is April 13, 2022 in the case of the NSC Note and April 16, 2022 in the case of the WEC Note. Monthly payment amounts are based on repayment of interest accrued during the Deferral Period, interest accruing until and including the Maturity Date, and full amortization of the outstanding principal balance. The PPP loans are recorded as debt.

According to the terms of the PPP, all or a portion of loans under the PPP may be forgiven if certain conditions set forth in the CARES Act and the rules of the SBA are met. In addition, each PPP Note includes events of default, the occurrence and continuation of which would provide the Lender with the right to exercise remedies against NSC or WEC, as applicable, including the right to declare the entire unpaid principal balance under the applicable PPP Note and all accrued unpaid interest immediately due. There can be no assurance that the SBA will forgive all or any part of the PPP Loans, or that it will not assert that the conditions to obtaining such loans were met, in which case the PPP Loans could be subject to acceleration.

United Advisors Acquisition

On February 7, 2020, the Company entered into a Stock Purchase Agreement (the “United Advisors Agreement” and the transactions contemplated thereunder, the “United Advisors Acquisition”) with United Atlantic Capital, LLC, a New Jersey limited liability company (“UAC”), Mark H. Penske (“MHP”) and Darin Pope (“DP”) and together with UAC and MHP, the “Selling Parties”) to acquire all of the outstanding equity interests (collectively, the “Purchased Group Shares”) of Financial Services International Corporation, a Washington corporation (“FSIC”), United Advisor Services, LLC, a New Jersey limited liability company (“UAS”), and United Advisors, LLC, a New Jersey limited liability company (“UA” and collectively with FSIC and UAS, the “Group Companies”).

On September 11, 2020, the Company completed the acquisition of all of the outstanding equity interests of the Group Companies. Under the terms of the United Advisors Agreement, at the closing of the United Advisors Acquisition, the Company acquired the Purchased Group Shares for a closing payment of \$3.0 million paid in cash. Under the Purchase Agreement, the Selling Parties are entitled to additional consideration of up to approximately \$4.5 million paid in twelve equal quarterly installment payments in cash (the “Additional Cash Purchase Price”), subject to certain adjustments.

UA is a New York-based, advisor and wealth management firm. UAS is an SEC Registered Investment Advisor and FSIC is a FINRA registered broker-dealer. More than 25 financial professionals are part of the United Advisors team.

Winslow, Evans & Crocker, Inc. Acquisition

On August 26, 2019, the Company entered into a stock purchase agreement (as amended, the “Winslow Agreement” and the transactions contemplated thereunder, the “Winslow Acquisition”) whereby the Company agreed to acquire all of the outstanding equity interests (the “Purchased Winslow Shares”) of Winslow Evans & Crocker, Inc. (“WEC”), Winslow, Evans & Crocker Insurance Agency, Inc. (“WIA”), and Winslow Financial, Inc. (“WF” and collectively with WEC and WIA, the “Winslow Targets”). The Company entered into an amendment to the Winslow Agreement on October 11, 2019, to reflect certain clarifications to the terms of the Winslow Agreement as agreed to by the parties.

On December 31, 2019, the Company completed the acquisition of all of the outstanding equity interests of the Winslow Targets.

Under the terms of the Winslow Agreement, at the closing of the Winslow Acquisition, the Company acquired the Purchased Winslow Shares for an aggregate purchase price of approximately \$3.2 million paid at closing in cash, subject to certain adjustments, plus additional consideration to be based on (i) the amount of net operating capital of WEC and WF as of the closing, payable in three annual installments and not to exceed \$1.0 million in the aggregate, (ii) the aggregate pre-tax net income (loss) of the Winslow Targets through September 22, 2022, provided that such additional consideration shall not be less than \$1.5 million and shall not exceed \$3.0 million in the aggregate, and (iii) a portion of the synergies achieved through September 20, 2022. At the signing of the Winslow Agreement, the Company deposited \$500,000 into escrow, which was applied to the amount payable at closing.

WEC is a Boston-based, full-service investment firm established in 1991. WEC is an SEC Registered Investment Advisor and a FINRA registered broker-dealer. More than 50 financial professionals including Certified Financial Planners, Investment Advisor Representatives, Financial Consultants, brokers and other specialists are part of the Winslow team. Located in the heart of the financial district in Boston, MA, the Company believes that WEC is a strategic location for the Company to build out its banking platform.

Growth Strategy

We continue to evaluate opportunities to grow our businesses, including potential acquisitions or mergers with other securities, investment banking and investment advisory firms, and by adding to our base of independent registered representatives and institutional trading personnel organically. These acquisitions may involve payments of material amounts of cash, the incurrence of a significant amount of debt or the issuance of significant amounts of our equity securities, which may be dilutive to our existing stockholders and/or may increase our leverage. We cannot assure you that we will be able to consummate any such potential acquisitions at all or on terms acceptable to us or, if we do, that any acquired business will be profitable.

Key Indicators of Financial Performance for Management

Management periodically reviews and analyzes our financial performance across a number of measurable factors considered to be particularly useful in understanding and managing our business. Key metrics in this process include productivity and practice diversification of representatives, top line commission and advisory services revenues, gross margins, operating expenses, legal costs, taxes, EBITDA as adjusted and earnings per share.

Critical Accounting Policies and Estimates

Our most critical accounting policies relate to revenue recognition (including revenue from variable interest entities), income taxes, and goodwill. The SEC defines “critical accounting estimates” as those that require application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods.

We believe our critical accounting policies are as follows:

Variable Interest Entities - We have entered into agreements to provide investment banking and advisory services to numerous investment funds (the “Funds”) that are considered variable interest entities (“VIEs”) under the accounting guidance. These Funds are established primarily to make and manage investments in equity or convertible debt securities of privately held companies that we, as investment advisory to the Funds, believes possess innovative or disruptive technologies and present opportunities for an initial public offering (“IPO”) or another similar liquidity event within approximately one to five years from the date of investment. The Funds intend to hold the investments until an IPO or another similar liquidity event and then to make distributions to its investors when contractually permitted, estimated approximately six months following such IPO or liquidity event.

We earn fees from the Funds in the form of placement agent fees and carried interest. For placement agent fees, we receive a cash fee of generally 7% to 10% of the amount of raised capital for the Funds and the fee is recognized at the time the placement services occurred. We receive carried interest as a percentage allocation (8% to 15%) of the profits of the Funds as compensation for asset management services provided to the Funds and it is recognized at the time of distributions. Once fund investors have received distributions in an amount equal to one hundred percent (100%) of their total capital contributions, we as the manager of the Funds will be entitled to share in any profits of the Funds to the extent of the carried interest. As the fee arrangements under such agreements are arm’s-length and contain customary terms and conditions and represent compensation that is considered fair value for the services provided, the fee arrangements are not considered variable interests and accordingly, we do not consolidate such VIEs.

Placement agent fees attributable to such arrangements were \$21,404,000 in 2020 and \$34,184,000 in 2019, respectively, and included in investment banking in the consolidated statements of operations.

Carried interest is recognized and recorded at the time of distribution and all contingencies are resolved. For the year ended September 30, 2020, no carried interest has been recorded. For the year ended September 30, 2019, \$15,872,000 of carried interest has been recorded. \$5,403,000 of the carried interest is related to the back-end compensation of the placement agent fees and is included in investment banking in the consolidated statements of operations. The remaining \$10,469,000 is recorded as compensation for asset management services and is included in investment advisory in the consolidated statements of operations. For the year ended September 30, 2019, an unrealized loss of \$2,389,000 was recorded due to the change in fair value of the shares received for carried interest. The loss for the change in fair value is included in net dealer inventory (losses) gains in the consolidated statements of operations.

Based on the investment performance of the Funds as of September 30, 2020, unrecognized carried interest under a hypothetical distribution was \$8,086,000 and the related compensation expense associated was \$5,651,000. Based on current market values, at December 24, 2020, unrecognized carried interest and related compensation expense under a hypothetical distribution would increase to \$49,776,000 and \$34,412,000, respectively. Carried interest is dependent on the market and will fluctuate until a distribution event occurs.

Revenue Recognition - Commission revenue represents commissions generated by our registered representatives for their clients' purchases and sales of mutual funds, variable annuities, general securities and other financial products, a high percentage of which is paid to the registered representatives as commissions for initiating the transactions.

Commission revenue is generated from front-end sales commissions that occur at the point of sale, as well as trailing commissions. We recognize front-end sales commission revenue and related clearing and other expenses on transactions introduced to our clearing brokers on a trade date basis. We also recognize front-end sales commissions and related expenses on transactions initiated directly between the registered representatives and product sponsors upon receipt of notification from sponsors of the commission earned. Commission revenue also includes certain 12b-1 fees, and variable product trailing fees, collectively considered as trailing fees, which are recurring in nature. These trailing fees are earned by us based on a percentage of the current market value of clients' investment holdings in trail eligible assets. Because trail commission revenues are generally paid in arrears, management estimates commission revenues earned during each period. These estimates are based on a number of factors including investment holdings and the applicable commission rate and the amount of trail commission revenue received in prior periods. Estimates are subsequently adjusted to actual based on notification from the sponsors of trail commissions earned.

Net dealer inventory gains, which are recorded on a trade-date basis, include realized and unrealized net gains and losses resulting from our principal trading activities including equity-linked warrants received from investment banking activities.

We generally act as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which we do not make a market, and charge commissions based on the services we provide to our customers. In executing customer orders to buy or sell a security in which we make a market, we may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. We may also act as agent and execute a customer's purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. Mark-ups, mark-downs and commissions are generally priced competitively based on the services we provide to our customers. In each instance the commission charges, mark-ups or mark-downs are in compliance with guidelines established by FINRA.

Investment banking revenues consist of underwriting revenues, advisory revenues and private placement fees. Underwriting revenues arise from securities offerings in which we act as an underwriter and include management fees, selling concessions and underwriting fees. Management estimates our share of the transaction-related expenses incurred by the syndicate. On final settlement, typically within 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses.

Investment advisory fees are derived from account management and investment advisory services. These fees are determined based on a percentage of the customers assets under management, may be billed monthly or quarterly and are recognized when earned. Also included in advisory fees is carried interest. Carried interest is recognized and recorded at the time of distribution and all contingencies are resolved.

Interest is recorded on an accrual basis and dividends are recorded on the ex-dividend date.

Transfer fees and fees for clearing services are recorded on a trade date basis.

Tax preparation and accounting fees are recognized upon completion of the services.

See Note 20 of our consolidated financial statements for additional disclosures on revenue recognition from revenues from contracts.

Income Taxes - We account for income taxes in accordance with generally accepted accounting principles, also referred to as U.S. GAAP which require the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax basis of its assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, requiring us to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. We recognize accrued interest and penalties related to income taxes as a component of income tax expense. As of September 30, 2020 and 2019, we had no unrecognized tax positions.

Goodwill - Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill represents the excess of the purchase price over the fair value of its identifiable net assets acquired. We test goodwill for impairment at the reporting unit level. Fair value of a reporting unit is typically based upon estimated future cash flows discounted at a rate commensurate with the risk involved or market-based comparables. If the carrying amount of the reporting unit's net assets exceeds its fair value, then an impairment will be recognized. An impairment loss will be recognized in an amount equal to the excess of the carrying amount over its fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities testing goodwill for impairment, the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such impairment test.

Under Accounting Standards Update ('ASU') No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, step 2 of the goodwill impairment test has been eliminated. Step 2 of the goodwill impairment test required companies to determine the implied fair value of the reporting unit's goodwill. Under the new standard, an entity recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The standard is effective for us beginning October 1, 2020 for both interim and annual periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted this standard for the annual tests performed after January 1, 2017.

Results of Operations

Fiscal Year 2020 Compared with Fiscal Year 2019

Our fiscal year 2020 resulted in an increase in revenues and an increase in operating expenses as compared to fiscal year 2019. Lower margin commission revenue replaced higher margin investment banking revenues, which we attribute to overall market dynamics and volatility associated with the COVID-19 pandemic, and which contributed to the increase in operating expenses. Fiscal 2019 results also included substantial carried interest revenue, which provided significantly higher levels of gross margin. Finally, increasingly low interest rates have impacted revenue generating capabilities of certain investment products. As a result, we reported loss before taxes of \$(8,079,000) for fiscal year 2020 as compared to income before taxes of \$2,160,000 for fiscal year 2019.

Revenues

	Fiscal Year		Increase (Decrease)	
	2020	2019	Amount	Percent
Commissions	\$ 116,898,000	\$ 86,929,000	\$ 29,969,000	34%
Net dealer inventory gains (losses)	1,076,000	(1,466,000)	2,542,000	173%
Investment banking	51,280,000	69,656,000	(18,376,000)	(26)%
Investment advisory	35,676,000	34,400,000	1,276,000	4%
Interest and dividends	4,334,000	5,822,000	(1,488,000)	(26)%
Transfer fees and clearing services	9,957,000	8,092,000	1,865,000	23%
Tax preparation and accounting	10,148,000	8,807,000	1,341,000	15%
Other	506,000	701,000	(195,000)	(28)%
Total Revenues	\$ 229,875,000	\$ 212,941,000	\$ 16,934,000	8%

Total revenues increased \$16,934,000, or 8%, in fiscal year 2020 to \$229,875,000 from \$212,941,000 in fiscal year 2019. This increase in revenues is primarily due to revenues generated by commissions and net dealer inventory gains offset in part by the decrease in revenues from investment banking.

- Commissions increased by \$29,969,000, or 34%, to \$116,898,000 from \$86,929,000 during fiscal year 2020 when compared to fiscal 2019. This increase is mainly attributable to an increase in trading commission revenue and \$3,200,000 in incremental revenue due to the Winslow Acquisition. Customer trading volumes across the industry increased compared to the prior year period, which we attribute to COVID-19 related market volatility.
- Net dealer inventory gains (losses) increased by \$2,542,000, or 173%, to \$1,076,000 from \$(1,466,000) during fiscal year 2020 when compared to fiscal 2019. This increase is primarily due to higher security market values resulting in higher gains. Unrealized losses for the Lyft securities and for the firm's investment portfolio created the net loss in fiscal year 2019. In addition, \$600,000 in incremental revenue is due to the Winslow Acquisition.
- Investment banking decreased by \$18,376,000, or 26%, to \$51,280,000 from \$69,656,000, during fiscal year 2020 when compared to fiscal 2019. The 2019 fiscal year was particularly strong in both our traditional investment banking business as well as our private shares business. Our investment banking business recorded \$5,400,000 in carried interest in fiscal 2019. We attribute the weakness in this business in fiscal 2020 to COVID-19.
- Investment advisory increased by \$1,276,000, or 4%, to \$35,676,000 from \$34,400,000 during fiscal year 2020 when compared to fiscal 2019. The increase is primarily due to the incremental revenue as a result of the Winslow Acquisition as well as an increase in assets under management, due to increased registered representative recruiting, market valuation levels, and the continuing reallocation of some client assets to our investment advisory business. The increase was offset by a decrease of \$10,469,000 of carried interest revenue we recorded during fiscal 2019 as compensation for asset management services from the private shares funds distributed. There was no carried interest revenue recorded during fiscal 2020.
- Interest and dividends decreased by \$1,488,000, or 26%, to \$4,334,000 from \$5,822,000 during fiscal year 2020 when compared to fiscal 2019. This decrease is attributable to the drop in the Federal funds rate, as interest rates overall are near zero.
- Transfer fees and clearing services, increased by \$1,865,000, or 23%, to \$9,957,000 from \$8,092,000 during fiscal year 2020 when compared to fiscal 2019. This increase is primarily attributable to an increase in customer trading volumes.
- Tax preparation and accounting fees increased by \$1,341,000, or 15%, to \$10,148,000 from \$8,807,000 during fiscal year 2020 when compared to fiscal 2019. This increase is attributable to revenue generated by new business acquisitions.
- Other revenue decreased by \$195,000, or 28%, to \$506,000 from \$701,000 during fiscal year 2020 when compared to fiscal 2019. This decrease is primarily due to a decline of client participation in our fully paid stock lending program.

Operating expenses

	Fiscal Year		Increase (Decrease)	
	2020	2019	Amount	Percent
Commissions, compensation and fees	\$ 195,938,000	\$ 175,453,000	\$ 20,485,000	12%
Clearing fees	8,474,000	4,808,000	3,666,000	76%
Communications	3,588,000	2,816,000	772,000	27%
Occupancy	5,053,000	4,301,000	752,000	17%
Licenses and registration	3,871,000	2,960,000	911,000	31%
Professional fees	9,320,000	7,306,000	2,014,000	28%
Interest	90,000	32,000	58,000	181%
Depreciation and amortization	2,854,000	1,832,000	1,022,000	56%
Other administrative expenses	9,203,000	11,333,000	(2,130,000)	(19)%
Total Operating Expenses	\$ 238,391,000	\$ 210,841,000	\$ 27,550,000	13%

In comparison with the 8% increase in total revenues, total operating expenses increased 13%, or \$27,550,000, to \$238,391,000 for fiscal year 2020 compared to \$210,841,000 in fiscal year 2019.

- Commissions, compensation, and fees include expenses based on commission revenue, net dealer inventory gains revenue, investment banking and investment advisory revenues, as well as compensation to our non-broker employees. These expenses increased by \$20,485,000, or 12% , to \$195,938,000 in fiscal year 2020 from \$175,453,000 in fiscal year 2019. This increase is primarily related to higher commissions revenue and therefore higher variable compensation expense. Commissions is our lowest margin business. In addition to the overall revenue increase, as a result of the revenue redistribution from investment banking to commissions revenue, our cost of sales commissions increased. Additionally, \$5,700,000 in incremental expense is due to the Winslow Acquisition.
- Clearing fees increased by \$3,666,000, or 76%, to \$8,474,000 in fiscal year 2020 from \$4,808,000 in fiscal year 2019. The increase is primarily due to higher clearings fees as a result of the increase in trading volume and the incremental expense as a result of the Winslow Acquisition.
- Communications expenses increased by \$772,000, or 27%, to \$3,588,000 in fiscal year 2020 from \$2,816,000 in fiscal year 2019. This increase is primarily due to the incremental expense as a result of the Winslow Acquisition.
- Occupancy expenses increased by \$752,000, or 17%, to \$5,053,000 in fiscal year 2020 from \$4,301,000 in fiscal year 2019. This increase is primarily due to several small locations opened later in fiscal year 2019 as part of the company's geographical expansion as well as the incremental expense as a result of the Winslow Acquisition.
- Licenses and registration increased by \$911,000, or 31%, to \$3,871,000 in fiscal year 2020 from \$2,960,000 in fiscal year 2019. This increase is attributable to licenses for software applications as we continue to invest in and implement technology enhancement.
- Professional fees increased by \$2,014,000, or 28% to \$9,320,000 in fiscal year 2020 from \$7,306,000 in fiscal year 2019. This increase is primarily related to legal and consulting fees related to the B. Riley proposal and business acquisition matters.
- Interest expense increased by \$58,000, or 181%, to \$90,000 in fiscal year 2020 from \$32,000 in fiscal year 2019
- Depreciation and amortization expense increased by \$1,022,000, or 56%, to \$2,854,000 in fiscal year 2020 from \$1,832,000 in fiscal year 2019. Higher amortization expense for new customer list intangibles as a result of new business acquisitions contributed to the majority of this increase.
- Other administrative expenses, which include but are not limited to advertising, office supplies, dues and subscriptions, provisions for potential arbitration settlements, insurance and director compensation, decreased by \$2,130,000, or 19%, to \$9,203,000 in fiscal year 2020 from \$11,333,000 in fiscal year 2019. This decrease as compared to the prior year is primarily due to higher costs for arbitration settlements recorded in the prior year period.

Net Income

We reported a net loss attributable to common shareholders in fiscal 2020 of \$5,938,000 or \$0.44 per common share on a fully diluted basis, as compared to net loss attributable to common shareholders of \$819,000, or \$0.06 per common share on a fully diluted basis in fiscal year 2019.

NON-GAAP INFORMATION

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our Board and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-based compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income (loss), net income (loss) and cash flows from operating activities. For fiscal years 2020 and 2019, EBITDA, as adjusted, was \$5,672,000 and \$12,395,000, respectively.

The following table presents a reconciliation of net income (loss) attributable to common shareholders as reported in accordance with generally accepted accounting principles, or GAAP, to EBITDA, as adjusted.

	Fiscal Year Ended	
	2020	2019
Net (loss) income attributable to common shareholders, as reported	\$ (5,938,000)	\$ (819,000)
Interest expense	90,000	32,000
Income taxes	(1,865,000)	319,000
Depreciation and amortization	2,854,000	1,832,000
EBITDA	(4,859,000)	1,364,000
Non-cash compensation expense	3,108,000	4,282,000
Forgivable loan amortization	894,000	680,000
Unrealized (gain) loss on the firm's warrant portfolio	2,895,000	2,820,000
Real estate restructuring costs	116,000	315,000
Business acquisition related costs	355,000	168,000
Professional fees associated with the B. Riley proposal	1,225,000	—
Legal and arbitration costs associated with pre-fiscal 2017 lawsuits not covered by insurance	1,160,000	2,766,000
New York City occupancy tax - fiscal 2007 through fiscal 2012	490,000	—
Gain on disposal of National Tax branches	(297,000)	—
Disposition/settlement of contingent consideration	(540,000)	—
Impairment of goodwill and intangible assets	1,125,000	—
EBITDA, as adjusted	<u>\$ 5,672,000</u>	<u>\$ 12,395,000</u>

EBITDA, adjusted for non-cash compensation expense, forgivable loan amortization, unrealized (gain) loss on the firm's warrant portfolio, real estate restructuring costs, business acquisition related costs, professional fees costs associated with the B. Riley proposal, legal and arbitration costs associated with pre-fiscal 2017 lawsuits not covered by insurance, New York City occupancy tax - fiscal 2007 through fiscal 2012, gain on disposal of National Tax branches, disposition/settlement of contingent consideration and impairment of goodwill and intangible assets is a key metric we use in evaluating our business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC.

Liquidity and Capital Resources

	Ending Balance September 30,		Average Balance during fiscal	
	2020	2019	2020	2019
Cash	\$ 27,327,000	\$ 30,443,000	\$ 25,806,200	\$ 28,117,000
Receivables from broker-dealers and clearing organizations	3,367,000	3,490,000	3,426,000	3,236,000
Securities owned (excludes warrants)	1,436,000	7,027,000	3,923,200	3,192,000
Accrued commissions and payroll payable, accounts payable and other accrued expenses	35,502,000	28,853,000	26,144,600	22,808,250

At September 30, 2020 and 2019, 30% and 50%, respectively, of our total assets consisted of cash, securities owned excluding warrants and receivables from broker-dealers and clearing organizations. The level of cash used in each asset class is subject to fluctuation based on market volatility, revenue production and trading activity in the marketplace.

In addition, as a registered broker-dealer and member of FINRA, NSC is subject to the Net Capital Rule, which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid overstating of the broker-dealer's net capital.

At September 30, 2020, NSC had net capital of \$3,812,891 which was \$2,812,891 in excess of its required minimum net capital of \$1,000,000. NSC is exempt from the provisions of the Customer Protection Rule since it is an introducing broker-dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

WEC is also subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the Net Capital Rule, shall not exceed 15 to 1. At September 30, 2020, WEC had net capital of \$467,947 which was \$305,992 in excess of its required net capital of \$161,955. WEC's ratio of aggregate indebtedness to net capital was 5.2 to 1. WEC is exempt from the provisions of Rule 15c3-3 since it is an introducing broker-dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

FSIC is also subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the Net Capital Rule, shall not exceed 15 to 1. At September 30, 2020, FSIC had net capital of \$117,538 which was \$112,538 in excess of its required net capital of \$5,000. FSIC's ratio of aggregate indebtedness to net capital was 0.2 to 1. FSIC is exempt from the provisions of Rule 15c3-3 since it is an introducing broker-dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

Advances, dividend payments and other equity withdrawals from NSC, WEC and FSIC are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that NSC, WEC and FSIC may dividend or advance to us.

We extend unsecured credit in the normal course of business to our brokers. The determination of the appropriate amount of the reserve for uncollectible accounts is based upon a review of the amount of credit extended, the length of time each receivable has been outstanding, and the specific individual brokers from whom the receivables are due.

The objective of liquidity management is to ensure that we have ready access to sufficient funds to meet commitments, fund deposit withdrawals and efficiently provide for the credit needs of customers.

Our primary sources of liquidity include our cash flow from operations and the sale of our securities and other financing activities. We believe that we have sufficient funds from operations to fund our ongoing operating requirements for at least the next twelve months. However, we may need to raise funds to enhance our working capital and for strategic purposes.

We do not have any material commitments for capital expenditures. We purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have amounted to \$241,000 and \$3,124,000 during fiscal years 2020 and 2019, respectively.

Certain of our subsidiaries have received loans from the Small Business Administration's Payroll Protection Plan program, a significant part of the U.S. government's pandemic stimulus. We anticipate that our use of proceeds from the PPP loans may result in loans being forgiven. See Note 22 of the notes to the consolidated financial statements for additional information.

Cash Flow - Operating Activities

Net cash provided by (used in) operating activities was \$(1,444,000) and \$7,676,000 for the years ended September 30, 2020 and 2019, respectively.

During the year ended September 30, 2020, net cash used in operating activities was primarily attributable to:

- \$6,214,000 of net loss, which included \$7,731,000 in non-cash items, consisting primarily of (i) \$3,108,000 of stock-based compensation expense, (ii) \$2,854,000 of depreciation and amortization expense, (iii) \$2,905,000 of deferred tax benefit and (iv) \$3,200,000 of amortization of operating lease assets; and
- Changes in operating assets and liabilities consisting primarily of (i) a \$3,794,000 increase in accounts payable, accrued expenses and other liabilities, (ii) a \$5,879,000 increase in other receivables, and (iii) a \$3,508,000 increase in forgivable loans receivable. These items were partially offset by (i) a \$8,853,000 decrease in securities owned, and (ii) a \$959,000 decrease in prepaid expenses.

During the year ended September 30, 2019, net cash provided by operating activities was primarily attributable to:

- \$1,841,000 of net income, which included \$6,066,000 in non-cash items, consisting primarily of (i) \$4,282,000 of stock-based compensation expense, (ii) \$1,832,000 of depreciation and amortization expense, and (iii) \$680,000 of amortization of forgivable loans; and
- Changes in operating assets and liabilities consisting primarily of (i) a \$4,695,000 increase in securities owned, (ii) a \$1,200,000 increase in other receivables, and (iii) a \$1,052,000 increase in forgivable loans receivable. These items were partially offset by (i) a \$6,542,000 increase in accounts payable, accrued expenses and other liabilities, and (ii) a \$477,000 decrease in receivables from broker dealers and clearing organizations.

Cash Flow - Investing Activities

Net cash used in investing activities was \$5,114,000 and \$3,017,000 for the years ended September 30, 2020 and 2019, respectively. Net cash used in investing activities during the year ended September 30, 2020 was primarily attributable to the acquisition of businesses and during the year ended September 30, 2019, was primarily attributable to the acquisition of property, plant and equipment.

Cash Flow - Financing Activities

Net cash provided by (used in) financing activities was \$3,444,000 and \$(2,529,000) for the years ended September 30, 2020 and 2019, respectively. Net cash used in financing activities for the year ended September 30, 2020, was primarily attributable to (i) \$6,497,000 in proceeds from PPP related loans, (ii) \$1,485,000 distributions to non-controlling interest, (iii) \$730,000 of contingent consideration payments, and (iv) \$373,000 for repurchase of common stock for tax withholding. Net cash used in financing activities for the year ended September 30, 2019, was primarily attributable to (i) \$899,000 distributions to non-controlling interest, (ii) \$617,000 of contingent consideration payments, and (iii) \$425,000 for repurchase of common stock for tax withholding.

Inflation

We believe that the effect of inflation on our assets, consisting of cash, securities, office equipment, leasehold improvements and computers has not been significant.

Off-Balance Sheet Arrangements

We do not have any off-balance-sheet arrangements (as defined in Regulation S-K 303(a)(4)(ii)) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

New Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The recognition of these lease assets and lease liabilities represents a change from previous U.S. GAAP requirements, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significantly changed from previous U.S. GAAP requirements. The Company adopted the provisions of Topic 842 on October 1, 2019, using the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of October 1, 2019. All comparative periods prior to October 1, 2019 are not adjusted and continue to be reported in accordance with Topic 840.

The Company elected to utilize the package of practical expedients permitted within the new standard, which among other things, allowed the Company to carryforward the historical lease classification. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off the Company's consolidated statements of financial condition which resulted in recognizing those lease payments in the consolidated statements of operations on a straight-line basis over the lease term.

Adoption of the new standard resulted in the recording of right-of-use assets and corresponding lease liabilities of \$14,720,000 and \$16,309,000, respectively, as of October 1, 2019. The difference between the right-of-use assets and the lease liabilities was recorded to eliminate existing deferred rent balances and remaining balances of lease incentives recorded under Topic 840. The adoption of the new standard did not materially impact the Company's consolidated statements of operations and had no impact on the Company's consolidated statements of cash flows. The Company's current lease arrangements expire through 2032. See Note 22 for further information.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for the Fair Value Measurement," which removes or modifies certain current disclosures, and adds additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements, and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 will need to be applied on a retrospective basis and others on a prospective basis. The standard is effective for the Company beginning October 1, 2020 for both interim and annual periods. Early adoption is permitted. The company is currently assessing the impact that the adoption of ASU 2018-13 will have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, Income Taxes. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 will be effective for the Company's fiscal year beginning October 1, 2021, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The company is currently assessing the impact that the adoption of ASU 2019-12 will have on its financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the notes thereto, included in Part IV, Item 15(a)(1), are incorporated by reference into this Item 8.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURESEvaluation of disclosure controls and procedures:

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, are recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms. Disclosure and control procedures are also designed to ensure that such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

Based on the evaluation of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) required by the Exchange Act Rules 13a-15(b) or 15d-15(b), our Principal Executive Officer and Principal Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.

Management's Annual Report on Internal Control over Financial Reporting:

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting as defined in Rules 13 a-15(f) of the Exchange Act.

Our management conducted an evaluation of the effectiveness of its internal controls over financial reporting, as of September 30, 2020, based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our internal controls over financial reporting were effective as of September 30, 2020.

Management believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

This management report on internal control over financial reporting shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that Section.

This Annual Report on Form 10-K does not include an attestation report from our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to SEC rules that permit us to provide only management's report in this Annual Report on Form 10-K.

Internal Controls over Financial Reporting:

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2020 identified in connection with the evaluation thereof by our management, including our Principal Executive Officer and Principal Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

There is no other information to be disclosed by us during the fourth quarter of fiscal year 2020 that has not been reported on a current report on Form 8-K.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from our Proxy Statement for our 2021 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from our Proxy Statement for our 2021 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference from our Proxy Statement for our 2021 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference from our Proxy Statement for our 2021 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference from our Proxy Statement for our 2021 Annual Meeting of Stockholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following financial statements are included in Part II, Item 8:

1. Financial Statements

Reports of Independent Registered Accounting Firms

Consolidated Financial Statements:

Statements of Financial Condition, September 30, 2020 and 2019

Statements of Operations for the Years ended September 30, 2020 and 2019

Statement of Changes in Stockholders' Equity for the Years ended September 30, 2020 and 2019

Statements of Cash Flows for the Years ended September 30, 2020 and 2019

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable or have been included in notes to the consolidated financial statements.

(b) See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL HOLDINGS CORPORATION
(Registrant)

Date: December 29, 2020

By: /s/ Michael A. Mullen
Michael A. Mullen
Chief Executive Officer
(Principal Executive Officer)

Date: December 29, 2020

/s/ Glenn C. Worman
Glenn C. Worman
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: December 29, 2020

/s/ Robert B. Fagenson
Robert B. Fagenson,
Vice Chairman of the Board

Date: December 29, 2020

/s/ Michael E. Singer
Michael E. Singer,
Executive Vice Chairman of the Board

Date: December 29, 2020

/s/ Daniel Hume
Daniel Hume,
Director

Date: December 29, 2020

/s/ Barbara Creagh
Barbara Creagh,
Director

Date: December 29, 2020

/s/ Jeff Gary
Jeff Gary,
Director

EXHIBIT INDEX

- 2.1 [Agreement and Plan of Merger, dated as of April 27, 2016, by and among the Company, Fortress Biotech, Inc. and FBIO Acquisition, Inc. \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 28, 2016; File No. 001-12629\).](#)
- 2.2 [Amendment No. 1 to Agreement and Plan of Merger by and among the Company, Fortress Biotech, Inc. and FBIO Acquisition, Inc., dated August 12, 2016 \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 12, 2016; File No. 001-12629\).](#)
- 3.1 [The Company's Amended and Restated Certificate of Incorporation, dated as of February 1, 2017 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 1, 2017; File No. 001-12629\).](#)
- 3.2(a) [The Company's Amended and Restated Bylaws \(incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed on February 13, 2002; File No. 001-12629\).](#)
- 3.2(b) [Amendment to Amended and Restated Bylaws \(incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2014, File No. 001-12629\)](#)
- 3.2(c) [Amendment to Amended and Restated Bylaws \(incorporated by reference to the Company's Current Report on Form 8-K filed on September 27, 2016; file No. 001-12629\).](#)
- 3.2(d) [Amendment to Amended and Restated Bylaws \(incorporated by reference to the Company's Current Report on Form 8-K filed on April 6, 2020; file No. 001-12629\).](#)
- 4.1 [Description of Registrant's Securities.](#)
- 4.2 [Form of Warrant, dated July 12, 2010 \(incorporated by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed on July 14, 2010; File No. 001-12629\).](#)
- 4.3 [Form of Warrant, dated September 29, 2010 \(incorporated by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K filed on October 5, 2010; File No. 001-12629\).](#)
- 10.1(a) [2013 Omnibus Incentive Plan, as Amended and Restated \(incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on February 25, 2019\)](#)
- 10.1(b)* [Form of Stock Option Agreement under 2013 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.1 \(c\) to the Company's Annual Report on Form 10-K filed on December 21, 2018; File No. 001-12629\).](#)
- 10.1(c)* [Form of Restricted Stock Unit Agreement under 2013 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.1 \(d\) to the Company's Annual Report on Form 10-K filed on December 21, 2018; File No. 001-12629\).](#)
- 10.2* [Nonqualified Stock Option and Dividend Equivalent Agreement, dated as of July 28, 2013, between National Holdings Corporation and Robert B. Fagenson \(incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on December 29, 2014; File No. 001-12629\).](#)
- 10.3* [Amended and Restated Employment Agreement, dated as of December 28, 2018 between National Holdings Corporation and Michael A. Mullen \(incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed on December 30, 2019; File No. 001-12629\).](#)
- 10.4(a)* [Employment Agreement, dated as of December 28, 2018 between National Holdings Corporation and Glenn C. Worman \(incorporated by reference to Exhibit 10.4\(a\) to the Company's Annual Report on Form 10-K filed on December 30, 2019; File No. 001-12629\).](#)
- 10.4(b)* [Nonqualified Inducement Stock Option Grant Notice, dated as of May 7, 2015, between National Holdings Corporation and Glenn C. Worman \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 13, 2015; File No. 001-12629\).](#)
- 10.4(c)* [Stock Option Agreement, dated as of May 7, 2015, between National Holdings Corporation and Glenn C. Worman \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 13, 2015; File No. 001-12629\).](#)
- 10.5 [Registration Rights Agreement, dated as of July 12, 2010 by and between National Holdings Corporation and the investors signatory thereto \(incorporated by reference to Exhibit 10.36 to the Company's Current Report on Form 8-K filed on July 14, 2010; File No. 001-12629\).](#)
- 10.6 [Registration Rights Agreement, dated as of January 24, 2013, by and among National Holdings Corporation and the purchasers signatory thereto \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No.001-12629\).](#)
- 10.7 [Registration Rights Agreement, dated as of August 28, 2013, by and among National Holdings Corporation and the purchasers signatory thereto \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 29, 2013; File No. 001-12629\).](#)
- 10.8 [Stockholder Rights Agreement, dated as of April 27, 2016, by and between National Holdings Corporation and FBIO Acquisition, Inc. \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 28, 2016; File No. 001-12629\).](#)

10.9	<u>Form of Support and Voting Agreement by and among certain officers and directors (and certain of their affiliates) of National Holdings Corporation, Fortress Biotech, Inc., and FBIO Acquisition, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 28, 2016; File No. 001-12629).</u>
10.10	<u>Form of Voting Agreement by and among certain officers and directors (and certain of their affiliates) of National Holdings Corporation, Fortress Biotech, Inc., and FBIO Acquisition, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 28, 2016; File No. 001-12629).</u>
10.11	<u>Warrant Agreement, dated December 13, 2016, between and among National Holdings Corporation, Computershare Inc. and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form S-1 filed on December 20, 2016; File No. 333-214791).</u>
10.12	<u>Amended and Restated Warrant Agreement by and among National Holdings Corporation, Computershare Inc. and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 16, 2018; File No. 001-12629).</u>
10.13	<u>Agreement between the Registrant and B. Riley Financial, Inc. dated November 14, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 20, 2018; File No.001-12629)</u>
10.14*	<u>Employment Agreement, dated as of December 28, 2018 between National Holdings Corporation and John C. DeSena (incorporated by reference to Exhibit 10.4(a) to the Company's Annual Report on Form 10-K filed on December 30, 2019; File No. 001-12629).</u>
10.15	<u>Stock Purchase Agreement, dated as of August 26, 2019, by and among the Sellers named therein, Daniel Santanello, Robert Maloney and National Holdings Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed August 29, 2019; File No. 001-12629).</u>
10.16	<u>Amendment No. 1 to Stock Purchase Agreement, dated as of October 11, 2019, by and among Daniel Santanello, Robert Maloney and National Holdings Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 17, 2019; File No. 001-12629).</u>
10.17	<u>Promissory Note of National Securities Corporation, dated as of April 10, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 29, 2020; File No. 001-12629).</u>
10.18	<u>Promissory Note of Winslow Evans & Crocker, Inc., dated as of April 15, 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 29, 2020; File No. 001-12629).</u>
10.19	<u>Stock Purchase Agreement, dated as of February 7, 2020, by and among United Atlantic Capital, LLC, Mark H. Penske, Darin Pope and National Holdings Corporation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed February 13, 2020; File No. 001-12629).</u>
21	<u>Subsidiaries of Registrant.</u>
23.1	<u>Consent of EisnerAmper LLP.</u>
31.1	<u>Chief Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Chief Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Chief Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Chief Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Indicates a management contract or compensatory plan or arrangement.

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

SEPTEMBER 30, 2020

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
National Holdings Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of National Holdings Corporation and Subsidiaries (the "Company") as of September 30, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2020 and 2019, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We have served as the Company's auditor since 2019.

EISNERAMPER LLP
New York, New York
December 29, 2020

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30,	
	2020	2019
ASSETS		
Cash	\$ 27,327,000	\$ 30,443,000
Restricted cash	962,000	960,000
Cash deposits with clearing organizations	686,000	436,000
Securities owned, at fair value	4,739,000	12,481,000
Receivables from broker dealers and clearing organizations	3,367,000	3,490,000
Forgivable loans receivable	4,269,000	1,834,000
Other receivables, net	12,394,000	5,672,000
Prepaid expenses	4,258,000	3,639,000
Fixed assets, net	4,382,000	5,067,000
Intangible assets, net	12,276,000	5,441,000
Goodwill	11,673,000	5,153,000
Deferred tax asset, net	4,795,000	4,560,000
Right-of-use assets	14,721,000	—
Other assets	1,388,000	2,031,000
Total Assets	\$ 107,237,000	\$ 81,207,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accrued commissions and payroll payable	15,445,000	18,590,000
Accounts payable and other accrued expenses	9,656,000	8,643,000
Deferred clearing and marketing credits	157,000	367,000
Contingent consideration	10,401,000	1,620,000
Operating lease liabilities	16,719,000	—
PPP Loans	6,523,000	—
Other	1,701,000	388,000
Total Liabilities	60,602,000	29,608,000
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none outstanding	—	—
Common stock \$0.02 par value, authorized 75,000,000 shares at September 30, 2020 and 2019; 13,639,622 shares issued and outstanding at September 30, 2020 and 13,158,441 shares issued and outstanding at September 30, 2019	273,000	263,000
Additional paid-in-capital	93,079,000	90,354,000
Accumulated deficit	(46,717,000)	(40,779,000)
Total National Holdings Corporation Stockholders' Equity	46,635,000	49,838,000
Non-controlling interest	—	1,761,000
Total Stockholders' Equity	46,635,000	51,599,000
Total Liabilities and Stockholders' Equity	\$ 107,237,000	\$ 81,207,000

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,	
	2020	2019
Revenues		
Commissions	\$ 116,898,000	\$ 86,929,000
Net dealer inventory (losses) gains	1,076,000	(1,466,000)
Investment banking	51,280,000	69,656,000
Investment advisory	35,676,000	34,400,000
Interest and dividends	4,334,000	5,822,000
Transfer fees and clearing services	9,957,000	8,092,000
Tax preparation and accounting	10,148,000	8,807,000
Other	506,000	701,000
Total Revenues	229,875,000	212,941,000
Operating Expenses		
Commissions, compensation and fees	195,938,000	175,453,000
Clearing fees	8,474,000	4,808,000
Communications	3,588,000	2,816,000
Occupancy	5,053,000	4,301,000
Licenses and registration	3,871,000	2,960,000
Professional fees	9,320,000	7,306,000
Interest	90,000	32,000
Depreciation and amortization	2,854,000	1,832,000
Other administrative expenses	9,203,000	11,333,000
Total Operating Expenses	238,391,000	210,841,000
Income before Other Income (Expense) and Income Taxes	(8,516,000)	2,100,000
Other Income (Expense)		
Gain on disposal of Gilman branches	297,000	—
Change in fair value of warrants	140,000	—
Other income	—	60,000
Total Other Income (Expense)	437,000	60,000
Income (Loss) before Income Taxes	(8,079,000)	2,160,000
Income tax expense (benefit)	(1,865,000)	319,000
Net Income (Loss)	\$ (6,214,000)	\$ 1,841,000
Net income (loss) attributable to non-controlling interest	276,000	(2,660,000)
Net income (loss) attributable to National Holdings Corporation common shareholders	\$ (5,938,000)	\$ (819,000)
Net income (loss) per share attributable to National Holdings Corporation common shareholders - Basic	\$ (0.44)	\$ (0.06)
Net income (loss) per share attributable to National Holdings Corporation common shareholders - Diluted	\$ (0.44)	\$ (0.06)
Weighted average number of shares outstanding - Basic	13,414,009	12,821,581
Weighted average number of shares outstanding - Diluted	13,414,009	12,821,581

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non- controlling Interest	Stockholders' Equity
	Shares	\$ Amount				
BALANCE, September 30, 2018	12,541,890	\$ 250,000	\$ 86,510,000	\$ (39,825,000)	\$ —	\$ 46,935,000
Cumulative effect of adoption of ASC 606 (Note 21)	—	—	—	(135,000)	—	(135,000)
BALANCE, October 1, 2019	12,541,890	250,000	86,510,000	(39,960,000)	—	46,800,000
Issuance of shares of common stock for warrant exercises	38	—	—	—	—	—
Stock – based compensation for restricted stock units	—	—	4,282,000	—	—	4,282,000
Issuance of shares of common stock with respect to restricted stock units and awards, net of 144,269 shares valued at \$425,000 tendered for tax withholding	616,513	13,000	(438,000)	—	—	(425,000)
Distributions to non-controlling interest	—	—	—	—	(899,000)	(899,000)
Net income (loss)	—	—	—	(819,000)	2,660,000	1,841,000
BALANCE, September 30, 2019	13,158,441	263,000	90,354,000	(40,779,000)	1,761,000	51,599,000
Stock – based compensation for restricted stock units	—	—	3,108,000	—	—	3,108,000
Issuance of shares of common stock with respect to restricted stock units and awards, net of 165,300 shares valued at \$373,000 tendered for tax withholding	481,181	10,000	(383,000)	—	—	(373,000)
Distributions to non-controlling interest	—	—	—	—	(1,485,000)	(1,485,000)
Net income (loss)	—	—	—	(5,938,000)	(276,000)	(6,214,000)
BALANCE, September 30, 2020	<u>13,639,622</u>	<u>\$ 273,000</u>	<u>\$ 93,079,000</u>	<u>\$ (46,717,000)</u>	<u>\$ —</u>	<u>\$ 46,635,000</u>

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (6,214,000)	\$ 1,841,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,854,000	1,832,000
Amortization of forgivable loans	894,000	680,000
Stock-based compensation	3,108,000	4,282,000
Provision (recovery) for doubtful accounts	191,000	(216,000)
Deferred tax (benefit) expense	(2,905,000)	(368,000)
Amortization of deferred clearing and marketing credit	(210,000)	(209,000)
Change in fair value of contingent consideration	311,000	65,000
Disposition/settlement of contingent consideration	(540,000)	
Impairment of intangible assets	401,000	—
Impairment of goodwill	724,000	—
Gain on disposal of Gilman branches	(297,000)	—
Amortization of right-of-use assets	3,200,000	—
Changes in assets and liabilities		
Cash deposits with clearing organizations	(10,000)	(100,000)
Receivables from broker dealers and clearing organizations	172,000	477,000
Forgivable loans receivable	(3,508,000)	(1,052,000)
Other receivables, net	(5,879,000)	(1,200,000)
Securities owned, at fair value	8,853,000	(4,695,000)
Prepaid expenses	959,000	426,000
Other assets	449,000	(629,000)
Accounts payable, accrued expenses and other liabilities	(3,794,000)	6,542,000
Securities sold, but not yet purchased at fair value	(203,000)	—
Net cash provided by (used in) operating activities	(1,444,000)	7,676,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of businesses	(4,945,000)	(387,000)
Purchase of fixed assets	(240,000)	(2,744,000)
Collection on notes receivable - disposal of National Tax branches	71,000	114,000
Net cash used in investing activities	(5,114,000)	(3,017,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock for tax withholding	(373,000)	(425,000)
Principal payments under capital lease obligations	(236,000)	(223,000)
Principal payments under Finance obligations	(229,000)	(365,000)
Proceeds from PPP related loans	6,497,000	—
Contingent consideration payments	(730,000)	(617,000)
Distributions to non-controlling interest	(1,485,000)	(899,000)
Net cash provided by (used in) in financing activities	3,444,000	(2,529,000)
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(3,114,000)	2,130,000
CASH AND RESTRICTED CASH BALANCE		
Beginning of the year	31,403,000	29,273,000
End of the year	\$ 28,289,000	\$ 31,403,000

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Years Ended September 30,	
	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 53,000	\$ 32,000
Income taxes, net of refunds	\$ 108,000	\$ 118,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Fixed assets (acquired but not paid)	\$ 1,000	\$ 380,000
Finance obligation	\$ —	\$ 958,000
Businesses acquired (See Note 4)		
Assets acquired including goodwill	\$ 17,395,000	\$ 1,815,000
Contingent consideration payable	(9,740,000)	(1,428,000)
Additional consideration payable	(1,083,000)	—
Escrow deposit	(500,000)	—
Cash received	(1,127,000)	—
Cash paid, net of cash received	\$ 4,945,000	\$ 387,000
Sale of National Tax branches:		
Notes receivable (included in other receivables)	\$ 636,000	\$ —
Disposal of goodwill	(239,000)	—
Disposal of intangible assets, net	(100,000)	—
Gain on disposal of National Tax branch	\$ 297,000	\$ —

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

National Holdings Corporation (“National” or the “Company”), a Delaware corporation organized in 1996, operates through its wholly-owned subsidiaries which principally provide financial services. Through its broker-dealer and investment advisory subsidiaries, the Company (1) offers full service retail brokerage and investment advisory services to individual, corporate and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to high-growth micro-, small- and mid-cap companies and (3) trades securities, including making markets in micro- and small-cap stocks listed on the Nasdaq Capital Market (“Nasdaq”) and other exchanges. The Company’s broker-dealer subsidiaries are National Securities Corporation (“NSC”) and Winslow, Evans & Crocker, Inc. (“WEC”). NSC conducts a national securities brokerage business through its main offices in New York City, New York and Boca Raton, Florida. NSC is an introducing broker and clears all transactions through clearing organizations on a fully disclosed basis. WEC is a Boston-based, full-service investment firm established in 1991. NSC and WEC are registered with the Securities and Exchange Commission (“SEC”) and are members of the Financial Industry Regulatory Authority (“FINRA”), Municipal Securities Rulemaking Board (“MSRB”) and the Securities Investor Protection Corporation (the “SIPC”).

Our wholly-owned subsidiary, National Asset Management, Inc., a Washington corporation (“NAM”), is a federally-registered investment adviser providing asset management advisory services to retail clients for a fee based upon a percentage of assets managed.

Our wholly-owned subsidiaries, National Insurance Corporation, a Washington corporation (“National Insurance”) and Prime Financial Services, a Delaware corporation (“Prime Financial”), provide fixed insurance products to their clients, including life insurance, disability insurance, long-term care insurance and fixed annuities.

Our wholly-owned subsidiary, National Tax and Financial Services, Inc. (“National Tax”) formerly Gilman Ciocia, Inc., provides tax preparation and accounting services to individuals and small to midsize companies.

Our wholly-owned subsidiary, GC Capital Corporation (“GC”), provides licensed mortgage brokerage services in New York and Florida.

Our wholly-owned subsidiary, Winslow, Evans & Crocker Insurance Agency, Inc., a Massachusetts corporation (“WIA”), provides fixed insurance products to its clients, and our wholly-owned subsidiary, Winslow Financial, Inc., a Massachusetts corporation (“WF”), is an SEC Registered Investment Advisor.

Our wholly-owned subsidiary, United Advisors, LLC, a New Jersey limited liability company (“UA”), is a New York-based, advisor and wealth management firm. United Advisor Services, LLC, a New Jersey limited liability company (“UAS”), is an SEC Registered Investment Advisor, and Financial Services International Corporation, a Washington corporation (“FSIC”), is a FINRA registered broker-dealer.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Principals of Consolidation

The consolidated financial statements include the accounts of National and its wholly owned and majority owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Non-controlling Interest

NAM has a majority voting interest in Innovation X Management, LLC (“Innovation X”), which together serve as the investment manager of an investment fund (see Variable Interest Entities below). Because NAM has the majority voting interest in Innovation X, the results of operations of Innovation X are included in the Company’s consolidated financial statements, and the amount attributable to the other investor is recorded as a non-controlling interest.

Variable Interest Entities

The Company has entered into agreements to provide investment banking and advisory services to numerous investment funds (the “Funds”) that are considered variable interest entities (“VIEs”) under the accounting guidance. These Funds are established primarily to make and manage investments in equity or convertible debt securities of privately held companies that the Company, as investment advisory to the Funds, believes possess innovative or disruptive technologies and present opportunities for an initial public offering (“IPO”) or another similar liquidity event within approximately one to five years from the date of investment. The Funds intend to hold the investments until an IPO or another similar liquidity event and then to make distributions to its investors when contractually permitted, estimated approximately six months following such IPO or liquidity event.

The Company earns fees from the Funds in the form of placement agent fees and carried interest. For placement agent fees, the Company receives a cash fee of generally 7% to 10% of the amount of raised capital for the Funds and the fee is recognized at the time the placement services occurred. The Company receives carried interest as a percentage allocation (8% to 15%) of the profits of the Funds as compensation for asset management services provided to the Funds and it is recognized at the time of distributions. Once fund investors have received distributions in an amount equal to one hundred percent (100%) of their total capital contributions, the Company as the manager of the Funds will be entitled to share in any profits of the Funds to the extent of the carried interest. As the fee arrangements under such agreements are arm’s-length and contain customary terms and conditions and represent compensation that is considered fair value for the services provided, the fee arrangements are not considered variable interests and accordingly, the Company does not consolidate such VIEs.

Placement agent fees attributable to such arrangements were \$21,404,000 in 2020 and \$34,184,000 in 2019, respectively, and included in investment banking in the consolidated statements of operations.

Carried interest is recognized and recorded at the time of distribution and all contingencies are resolved. For the year ended September 30, 2020, no carried interest has been recorded. For the year ended September 30, 2019, \$15,872,000 of carried interest has been recorded. \$5,403,000 of the carried interest is related to the back-end compensation of the placement agent fees and is included in investment banking in the consolidated statements of operations. The remaining \$10,469,000 is recorded as compensation for asset management services and is included in investment advisory in the consolidated statements of operations. For the year ended September 30, 2019, an unrealized loss of \$2,389,000 was recorded due to the change in fair value of the shares received for carried interest. The loss for the change in fair value is included in net dealer inventory (losses) gains in the consolidated statements of operations.

Unrecognized Carried Interest (Unaudited)

Based on the investment performance of the Funds as of September 30, 2020, unrecognized carried interest under a hypothetical distribution was \$8,086,000 and the related compensation expense associated was \$5,651,000. Based on current market values, at December 24, 2020, unrecognized carried interest and related compensation expense under a hypothetical distribution would increase to \$49,776,000 and \$34,412,000, respectively. Carried interest is dependent on the market and will fluctuate until a distribution event occurs.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could significantly differ from those estimates.

Revenue Recognition

Commission revenue represents commissions generated by the Company's registered representatives for their clients' purchases and sales of mutual funds, variable annuities, general securities and other financial products, most of which is paid to the registered representatives as commissions for initiating the transactions.

Commission revenue is generated from front-end sales commissions that occur at the point of sale, as well as trailing commissions. The Company recognizes front-end sales commission revenue and related clearing and other expenses on transactions introduced to its clearing brokers on a trade date basis. The Company also recognizes front-end sales commissions and related expenses on transactions initiated directly between the registered representatives and product sponsors upon receipt of notification from sponsors of the commission earned. Commission revenue also includes 12b-1 fees, and variable product trailing fees, collectively considered as trailing fees, which are recurring in nature. These trailing fees are earned by the Company based on a percentage of the current market value of clients' investment holdings in trail eligible assets. Because trail commission revenues are generally paid in arrears, management estimates commission revenues earned during each period. These estimates are based on a number of factors including investment holdings and the applicable commission rate and the amount of trail commission revenue received in prior periods. Estimates are subsequently adjusted to actual based on notification from the sponsors of trail commissions earned.

Net dealer inventory gains, which are recorded on a trade-date basis, include realized and unrealized net gains and losses resulting from the Company's principal trading activities including equity-linked warrants received from investment banking activities.

Investment banking revenues consist of underwriting revenues, advisory revenues and private placement fees. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees. Management estimates the Company's share of the transaction-related expenses incurred by the syndicate. On final settlement, typically within 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses.

Investment advisory fees are derived from account management and investment advisory services. These fees are determined based on a percentage of the customers assets under management, may be billed monthly or quarterly and are recognized when earned. Also included in advisory fees is carried interest. Carried interest is recognized and recorded at the time of distribution and all contingencies are resolved.

Interest is recorded on an accrual basis and dividends are recorded on the ex-dividend date.

Transfer fees and fees for clearing services are recorded on a trade date basis.

Tax preparation and accounting fees are recognized upon completion of the services.

See Note 20 of the Company's consolidated financial statements for additional disclosures on revenue recognition from revenues from contracts.

Income Taxes

The Company accounts for income taxes in accordance with US GAAP which requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax basis of its assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, requiring us to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company recognizes accrued interest and penalties related to income taxes as a component of income tax expense. As of September 30, 2020 and 2019, the Company had no unrecognized tax positions.

Securities

Securities owned and securities sold, but not yet purchased, are recorded at fair value. See Note 9 for fair value measurements.

Fixed Assets, net

Fixed assets are recorded at cost net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets (See Note 10). Leasehold improvements are amortized on a straight-line basis over the lease term, or their estimated useful lives, whichever is shorter.

Fixed assets are reviewed for impairment whenever indicators of impairment exist. In such circumstances, the Company will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will recognize an impairment loss to adjust to the fair value of the asset.

Net Income per Common Share

Basic net income per share is computed on the basis of the weighted average number of common shares outstanding. Diluted net income per share is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of incremental shares of common stock potentially issuable under outstanding options, warrants and unvested restricted stock units utilizing the treasury stock method. A reconciliation of basic and diluted common shares used in the computation of per share data follows:

	Year Ended September 30,	
	2020	2019
Basic weighted-average shares	13,414,009	12,821,581
Effect of dilutive securities:		
Options	—	—
Unvested restricted stock units	—	—
Diluted weighted-average shares	13,414,009	12,821,581

At September 30, 2020 and 2019, options, warrants and unvested restricted stock units totaling 9,166,422 and 9,321,747 shares, respectively, were excluded from the computation of diluted net income (loss) per share as their effect would have been anti-dilutive.

Stock-based Compensation

The Company measures the cost of employee, officer and director services received in exchange for an award of equity instruments including stock options and restricted stock units, based on the grant-date fair value of the award and measures the cost of independent contractor awards based on the vesting date fair value of the award. The cost is recognized as compensation expense over the service period, which would normally be the vesting period of the award.

Deferred Clearing and Marketing Credits

The deferred clearing credit represents a clearing fee rebate from National Financial Services (“NFS”), one of the Company’s clearing brokers, which is being recognized pro rata as a reduction of clearing charges over the term of the clearing agreement which expires in 2021. The clearing rebate recognized in fiscal years 2020 and 2019 amounted to \$143,000 for each of the two years. At September 30, 2020 and 2019, the deferred credit amounted to \$107,000 and \$250,000, respectively.

The deferred marketing credit represents a marketing rebate from NFS, which is being recognized pro rata as a reduction of marketing expenses over the term of the clearing agreement which expires in 2021. The marketing rebate recognized in fiscal years 2020 and 2019 amounted to \$67,000 for each of the two years. At September 30, 2020 and 2019, the deferred credit amounted to \$50,000 and \$117,000, respectively.

Reimbursement of Expenses

The Company incurs certain costs on behalf of its registered representatives including those for insurance, professional registration, technology and information services and legal services, amongst others, which are charged back to the registered representatives. It is the Company's policy to record the reimbursement as a reduction of the respective operating expense. Total reimbursements in fiscal years 2020 and 2019 amounted to approximately \$7,889,000 and \$7,422,000, respectively.

Intangible Assets

Intangible assets with finite lives, which consist of customer relationships, are being amortized over their estimated useful lives on a straight-line basis. Such intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assesses the recoverability of its intangible assets by determining whether the unamortized balance can be recovered over the assets' remaining estimated useful life through undiscounted estimated future cash flows. If undiscounted estimated future cash flows indicate that the unamortized amounts will not be recovered, an adjustment will be made to reduce such amounts to fair value based on estimated future cash flows discounted at a rate commensurate with the risk associated with achieving such cash flows. Estimated future cash flows are based on trends of historical performance and the Company's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Brand names are being amortized over their estimated useful lives on a straight-line basis and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Brand names are tested for impairment by comparing their fair value to their carrying amount. If the carrying amount exceeds fair value, an impairment loss is recognized for the excess (see Note 6).

Goodwill

Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment at the reporting unit level. Fair value of a reporting unit is typically based upon estimated future cash flows discounted at a rate commensurate with the risk involved or market-based comparables. If the carrying amount of the reporting unit's net assets exceeds its fair value, then an impairment will be recognized. An impairment loss will be recognized in an amount equal to the excess of the carrying amount over its fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities testing goodwill for impairment, the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such impairment test. See Note 5.

Cash and Restricted Cash

The Company has defined cash as cash held at financial institutions and highly liquid investments with maturities of less than three months when acquired that are not held for sale in the ordinary course of business. Cash held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation.

Restricted cash consists of deposits collateralizing letters of credits in connections with property leases. Cash and restricted cash consist of the following:

	September 30,	
	2020	2019
Cash	27,327,000	30,443,000
Restricted cash	962,000	960,000
	28,289,000	31,403,000

Receivables From Broker Dealers and Clearing organizations

Receivables from broker dealers and clearing organizations represent net amounts due for fees and commissions associated with the Company's retail brokerage business.

Forgivable Loans

Forgivable Loans represent loans to primarily newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest ranging up to 9%). These forgivable loans are amortized over time, and the amortization is included in Commissions, compensation and fees within the Statement of Operations. The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable.

Reclassifications

Certain items in the statement of operations for 2019 have been reclassified to conform to their presentation in 2020. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

NOTE 3. NEW ACCOUNTING GUIDANCE

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires the lessee to recognize the right to use lease assets and lease liabilities that arise from operating leases, and present them in its statement of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous US GAAP requirements, which did not require lease assets and lease liabilities to be recognized for operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significantly changed from previous US GAAP requirements. The Company adopted the provisions of Topic 842 on October 1, 2019, using the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of October 1, 2019. All comparative periods prior to October 1, 2019 are not adjusted and continue to be reported in accordance with Topic 840.

The Company elected to utilize the package of practical expedients permitted within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off the Company's consolidated statements of financial condition which resulted in recognizing those lease payments in the consolidated statements of operations on a straight-line basis over the lease term.

Adoption of the new standard resulted in the recording of right-of-use assets and corresponding lease liabilities of \$14,720,000 and \$16,309,000, respectively, as of October 1, 2019. The difference between the right-of-use assets and the lease liabilities was recorded to eliminate existing deferred rent balances and remaining balances of lease incentives recorded under Topic 840. The adoption of the new standard did not materially impact the Company's consolidated statements of operations and had no impact on the Company's consolidated statements of cash flows. The Company's current lease arrangements expire through 2032. See Note 21 for further information.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for the Fair Value Measurement," which removes or modifies certain current disclosures, and adds additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements, and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 will need to be applied on a retrospective basis and others on a prospective basis. The standard is effective for the Company beginning October 1, 2020 for both interim and annual periods. Early adoption is permitted. The Company is currently assessing the impact that the adoption of ASU 2018-13 will have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, Income Taxes. The amendments also improve consistent application of and simplify US GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 will be effective for the Company's fiscal year beginning October 1, 2021, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company is currently assessing the impact that the adoption of ASU 2019-12 will have on its financial statements.

NOTE 4. BUSINESS COMBINATION, CONTINGENT CONSIDERATION AND DISPOSAL OF BRANCHES

Business Combinations

In January and February 2019, National Tax acquired certain assets of three tax preparation and accounting businesses that per accounting guidance were deemed to be a business combination. The consideration for the transactions consisted of cash payments at closing totaling \$387,000, and contingent consideration payable in cash having a fair value of \$1,428,000, for which liabilities (included in accounts payable and accrued expenses) were recognized based on the estimated acquisition date fair value of the potential earn-outs. The earn-outs are based on revenue, as defined in the acquisition agreements, during various periods following the closing. The fair values of the acquired assets totaling \$1,815,000 were allocated to customer relationships, which are being amortized over seven years.

In December 2019, January 2020 and September 2020, National Tax acquired certain assets of three tax preparation and accounting businesses that per accounting guidance were deemed to be a business combination. The consideration for the transactions consisted of cash payments at closing totaling \$582,000, and contingent consideration payable in cash having a fair value of \$2,177,000, for which a liability (included in contingent consideration) was recognized based on the estimated acquisition date fair value of the potential earn-outs. The earn-outs are based on revenue, as defined in the acquisition agreements, during various periods following the closing. The fair value of the acquired assets totaling \$2,759,000 was allocated to customer relationships, which are being amortized over seven years.

The contingent consideration liabilities recognized in the above acquisitions were valued using an income-based approach using unobservable inputs (Level 3) and reflects the Company's own assumptions. The liabilities will be revalued at each Balance Sheet date with changes therein recorded in earnings. Results of operations of the acquired businesses are included in the accompanying consolidated statements of operations from the dates of acquisition and were not material. In addition, based on materiality, pro forma results are not presented.

Winslow acquisition

On August 26, 2019, the Company entered into a stock purchase agreement (as amended, the "Winslow Agreement" and the transactions contemplated thereunder, the "Winslow Acquisition") whereby the Company agreed to acquire all of the outstanding equity interests (the "Purchased Shares") of Winslow Evans & Crocker, Inc. ("WEC"), Winslow, Evans & Crocker Insurance Agency, Inc. ("WIA"), and Winslow Financial, Inc. ("WF" and collectively with WEC and WIA, the "Winslow Targets"). The Company entered into an amendment to the Winslow Agreement on October 11, 2019, to reflect certain clarifications to the terms of the Winslow Agreement as agreed to by the parties.

On December 31, 2019, the Company completed the acquisition of all of the outstanding equity interests of the Winslow Targets.

Under the terms of the Winslow Agreement, at the closing of the Winslow Acquisition, the Company acquired the Purchased Shares for an aggregate purchase price of approximately \$3.2 million paid at closing in cash, subject to certain adjustments, plus additional consideration to be based on (i) the amount of net operating capital of WEC and WF as of the closing, payable in three annual installments and not to exceed \$1.0 million in the aggregate, (ii) the aggregate pre-tax net income (loss) of the Winslow Targets through September 22, 2022, provided that such additional consideration shall not be less than \$1.5 million and shall not exceed \$3.0 million in the aggregate, and (iii) a portion of the synergies achieved through September 20, 2022. At the signing of the Winslow Agreement, the Company deposited \$500,000 into escrow, which was applied to the amount payable at closing.

WEC is a Boston-based, full-service investment firm established in 1991. WEC is an SEC Registered Investment Advisor and a FINRA registered broker-dealer. More than 50 financial professionals including Certified Financial Planners, Investment Advisor Representatives, Financial Consultants, brokers and other specialists are part of the Winslow team. Located in the heart of the financial district in Boston, MA, the Company believes that WEC is a strategic location for the Company to build out its banking platform.

The acquisition was accounted for using the acquisition method of accounting under which assets and liabilities of the Winslow Targets were recorded at their respective fair values including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets. A deferred tax liability has been recorded for the excess of financial statement basis over tax basis of the acquired assets and assumed liabilities with a corresponding increase to goodwill. The goodwill attributable to the acquisition has been recorded as a non-current asset and is not amortized, but is subject to an annual review for impairment. Goodwill, which is non-deductible for income tax purposes, is part of the brokerage and advisory services segment.

The acquisition price was allocated to the tangible and identified intangible assets acquired and liabilities assumed as of the closing date. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The estimated fair values of assets acquired and liabilities assumed are considered preliminary and are based on the most recent information available. The Company believes that the information provides a reasonable basis for assigning the fair values of assets acquired and liabilities assumed. Thus, the provisional measurements of fair value set forth below are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The table below summarizes the assets acquired and liabilities assumed in connection with the Winslow acquisition as of December 31, 2019.

	Estimated Fair Value
Assets	
Cash	\$ 1,111,000
Cash deposits with clearing organizations	207,000
Securities owned at fair value	1,111,000
Receivables from broker dealers and clearing organizations	49,000
Forgivable loans receivable	91,000
Other receivables, net	113,000
Prepaid expenses	432,000
Fixed assets, net	80,000
Intangible assets, net	4,400,000
Operating lease assets	1,823,000
Other assets	12,000
Total assets acquired	9,429,000
Liabilities	
Securities sold, not yet purchased at fair value	203,000
Accrued commissions and payroll payable	390,000
Accounts payable and accrued expenses	188,000
Operating lease liabilities	1,823,000
Deferred tax liability	1,196,000
Other	215,000
Total liabilities assumed	\$ 4,015,000
Net identifiable assets acquired	\$ 5,414,000
Goodwill	2,680,000
Total Purchase price	\$ 8,094,000

The intangible assets as of the closing date of the acquisition included:	Amount
Customer relationships	4,100,000
Brand name	300,000
	\$ 4,400,000

Indications of fair value of the intangible assets acquired in connection with the acquisition were determined using either the income, market or replacement cost methodologies. The intangible assets are being amortized over periods which reflect the pattern in which economic benefits of the assets are expected to be realized. The customer relationships are being amortized on an accelerated basis over an estimated useful life of twelve years and the brand name is being amortized on a straight-line basis over five years.

Initial purchase price	\$ 3,200,000
Additional consideration payable (net operating capital)	873,000
Earnout (contingent consideration)	4,021,000
Total purchase price	\$ 8,094,000

Pro Forma Financial Information

The following table presents the unaudited pro forma combined results of operations of the Company and Winslow for the twelve months ended September 30, 2020 and 2019 as if the acquisition of Winslow had occurred on October 1, 2018. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company's fiscal year 2019.

	Twelve Months Ended September 30,	
	2020	2019
Net revenues	\$ 232,815,000	\$ 223,811,000
Net Income (Loss)	\$ (6,187,000)	\$ 869,000
Net Income (Loss) attributable to common stockholders	\$ (5,911,000)	\$ (1,791,000)
Net income (loss) per common share:		
Basic	\$ (0.44)	\$ (0.14)
Diluted	\$ (0.44)	\$ (0.14)

United Advisors Acquisition

On February 7, 2020, the Company entered into a Stock Purchase Agreement with United Atlantic Capital, LLC, a New Jersey limited liability company, Mark H. Penske and Darin Pope to acquire all of the outstanding equity interests (collectively, the "Purchased Shares") of Financial Services International Corporation, a Washington corporation ("FSIC"), United Advisor Services, LLC, a New Jersey limited liability company ("UAS"), and United Advisors, LLC, a New Jersey limited liability company ("UA" and collectively with FSIC and UAS, the "Group Companies").

On September 11, 2020, the Company completed the acquisition of all of the outstanding equity interests of the Group Companies. At the closing, the Company acquired the Purchased Shares for a closing payment of \$3.0 million paid in cash. Under the Purchase Agreement, the Selling Parties are entitled to additional consideration of up to approximately \$4.5 million paid in twelve equal quarterly installment payments in cash, subject to certain adjustments.

UA is a New York-based, advisor and wealth management firm. UAS is an SEC Registered Investment Advisor and FSIC is a FINRA registered broker-dealer. More than 25 financial professionals are part of the United Advisors team.

The acquisition was accounted for using the acquisition method of accounting under which assets and liabilities of UA, UAS and FSIC were recorded at their respective fair values including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets. A deferred tax liability has been recorded for the excess of financial statement basis over tax basis of the acquired assets and assumed liabilities with a corresponding increase to goodwill. The goodwill attributable to the acquisition has been recorded as a non-current asset and is not amortized, but is subject to an annual review for impairment. Goodwill allocated to UA and UAS is deductible for income tax purposes and goodwill allocated to FSIC is non-deductible for income tax purposes. Goodwill is part of the brokerage and advisory services segment.

The acquisition price was allocated to the tangible and identified intangible assets acquired and liabilities assumed as of the closing date. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The estimated fair values of assets acquired and liabilities assumed are considered preliminary and are based on the most recent information available. The Company believes that the information provides a reasonable basis for assigning the fair values of assets acquired and liabilities assumed. Thus, the provisional measurements of fair value set forth below are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The table below summarizes the assets acquired and liabilities assumed in connection with the United Advisors acquisition as of September 11, 2020.

	Estimated Fair Value
Assets	
Cash	\$ 16,000
Cash deposits with clearing organizations	33,000
Other receivables, net	86,000
Prepaid expenses	12,000
Intangible assets, net	2,025,000
Total assets acquired	2,172,000
Liabilities	
Accounts payable and accrued expenses	7,000
Deferred tax liability	340,000
Other	86,000
Total liabilities assumed	\$ 433,000
Net identifiable assets acquired	\$ 1,739,000
Goodwill	4,803,000
Total Purchase price	\$ 6,542,000
The intangible assets as of the closing date of the acquisition included:	
	Amount
Customer relationships	1,960,000
Brand name	65,000
	\$ 2,025,000

Indications of fair value of the intangible assets acquired in connection with the acquisition were determined using either the income, market or replacement cost methodologies. The intangible assets are being amortized over periods which reflect the pattern in which economic benefits of the assets are expected to be realized. The customer relationships are being amortized on an accelerated basis over an estimated useful life of twelve years and the brand name is being amortized on a straight-line basis over one year.

Initial purchase price	\$ 2,790,000
Additional consideration payable	210,000
Contingent consideration	3,542,000
Total purchase price	<u>\$ 6,542,000</u>

Pro Forma Financial Information

The following table presents the unaudited pro forma combined results of operations of the Company and United Advisors for the twelve months ended September 30, 2020 and 2019 as if the acquisition of United Advisors had occurred on October 1, 2018. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company's fiscal year 2019.

	Twelve Months Ended September 30,	
	2020	2019
Net revenues	\$ 239,336,000	\$ 222,948,000
Net Income (Loss)	\$ (7,960,000)	\$ 2,468,000
Net Income (Loss) attributable to common stockholders	\$ (7,684,000)	\$ (192,000)
Net income (loss) per common share:		
Basic	\$ (0.57)	\$ (0.01)
Diluted	\$ (0.57)	\$ (0.01)

Contingent Consideration

Set below are changes in the carrying value of contingent consideration for the years ended September 30, 2020 and 2019 related to the acquisitions:

Fair value of contingent consideration at September 30, 2018	744,000
Fair value of contingent consideration in connection with 2019 acquisitions	1,428,000
Payments	(617,000)
Change in fair value	65,000
Fair value of contingent consideration at September 30, 2019	<u>1,620,000</u>
Fair value of contingent consideration in connection with 2020 Tax & Accounting acquisitions	2,177,000
Fair value of contingent consideration in connection with Winslow acquisition	4,021,000
Fair value of contingent consideration in connection with UA acquisition	3,542,000
Payments	(730,000)
Disposition/settlement of contingent consideration	(540,000)
Change in fair value	311,000
Fair value of contingent consideration at September 30, 2020	<u>\$ 10,401,000</u>

Disposal of National Tax Branches

In January 2020, the Company sold one of its National Tax branches for a note in the aggregate principal amount of \$636,000 which, after allocating a portion of goodwill and unamortized intangibles of \$239,000 and \$100,000, respectively, resulted in a gain on disposal of \$297,000. Principal and interest on the note is payable monthly over 120 months with an interest rate of 3% per annum. Notes receivables are included in other receivables in the statement of financial condition.

Notes receivable outstanding at September 30, 2020 and 2019 amounts to \$1,229,000 and \$665,000, respectively, which is included in other receivables in the statements of financial condition.

NOTE 5. GOODWILL

Changes to the carrying amount of goodwill during the years ended September 30, 2020 and 2019 are as follows:

	Brokerage and Advisory Services	Tax and Accounting Services	Total
Balance as of September 30, 2018	\$ 4,451,000	\$ 702,000	\$ 5,153,000
Impairment	—	—	—
Balance as of September 30, 2019	\$ 4,451,000	\$ 702,000	\$ 5,153,000
Goodwill related to Winslow acquisition	2,680,000	—	2,680,000
Goodwill related to UA acquisition	4,803,000	—	4,803,000
Reduction related to sale of National Tax branches	(164,000)	(75,000)	(239,000)
Impairment	(724,000)	—	(724,000)
Balance as of September 30, 2020	<u>\$ 11,046,000</u>	<u>\$ 627,000</u>	<u>\$ 11,673,000</u>

The annual quantitative impairment tests performed on September 30, 2020 indicated an impairment of goodwill in the brokerage and advisory services segment in the amount of \$724,000. The fair value of the reporting unit was estimated using the guideline company method taking into consideration the market value based on the Company's stock market. The impairment charge is included in other administrative expenses in the consolidated statement of operations. There was no impairment of goodwill for the year ended September 30, 2019.

NOTE 6. INTANGIBLES

Intangibles consisted of the following at September 30, 2020 and 2019:

September 30, 2020				
Intangible asset	Cost	Accumulated Amortization	Carrying Value	Estimated Useful Life (years)
Customer relationships	\$ 17,467,000	\$ 5,988,000	\$ 11,479,000	3 - 10
Brand name	1,075,000	282,000	793,000	1 - 5
Software license	45,000	41,000	4,000	3
	<u>\$ 18,587,000</u>	<u>\$ 6,311,000</u>	<u>\$ 12,276,000</u>	

September 30, 2019				
Intangible asset	Cost	Accumulated Amortization	Carrying Value	Estimated Useful Life (years)
Customer relationships	\$ 9,326,000	\$ 4,614,000	\$ 4,712,000	3 - 10
Brand name	710,000	—	710,000	Indefinite
Software license	45,000	26,000	19,000	3
	<u>\$ 10,081,000</u>	<u>\$ 4,640,000</u>	<u>\$ 5,441,000</u>	

Amortization expense for the years ended September 30, 2020 and 2019 was \$1,848,000 and \$1,104,000, respectively. During 2020, the Company began to amortize the brand name considered indefinite in the prior year over a period of three years as a result of a name change.

The estimated future amortization expense of the finite lived intangible assets for the next five fiscal years and thereafter is as follows:

Year ended September 30,	
2021	\$ 2,276,000
2022	2,154,000
2023	1,586,000
2024	1,242,000
2025	1,130,000
Thereafter	3,888,000
Total	<u>\$ 12,276,000</u>

NOTE 7. RECEIVABLES FROM BROKER DEALERS AND CLEARING ORGANIZATIONS AND OTHER RECEIVABLES

At September 30, 2020 and 2019, the receivables of \$3,367,000 and \$3,490,000, respectively, from broker-dealers and clearing organizations represent net amounts due for commissions and fees associated with the Company's retail brokerage business as well as asset based fee revenue associated with the Company's asset management advisory business.

Other receivables at September 30, 2020 and 2019 consist of the following:

	September 30,	
	2020	2019
Trailing fees	1,391,000	947,000
Accounts receivable for tax and accounting services	1,009,000	686,000
Allowance for doubtful accounts - tax and accounting services	(347,000)	(282,000)
Advances to registered representatives	1,834,000	1,383,000
Investment banking receivable	2,383,000	411,000
Advisory fees	771,000	483,000
Notes receivable (Note 4)	1,229,000	665,000
Other	4,124,000	1,379,000
Total	\$ 12,394,000	\$ 5,672,000

NOTE 8. FORGIVABLE LOANS RECEIVABLE

From time to time, the Company's operating subsidiaries may make loans, evidenced by promissory notes, primarily to newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (weighted average interest rate of 4%). These notes have various schedules for repayment or forgiveness based on production or retention requirements being met and mature at various dates through 2029. Amortization of forgivable loans amounted to \$894,000 and \$680,000 for the years ended September 30, 2020 and 2019 respectively, and the related compensation was included in commissions, compensation and fees in the statement of operations. In the event the advisor's affiliation with the subsidiary terminates, the advisor is required to repay the unamortized balance of the note. The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of September 30, 2020 and 2019, no allowance for doubtful accounts was required.

Forgivable loan activity for the fiscal years ended September 30, 2020 and 2019 is as follows:

Balance, September 30, 2018	\$ 1,567,000
Advances	1,052,000
Amortization	(680,000)
Reclassification to other receivables	(105,000)
Balance, September 30, 2019	1,834,000
Advances	3,508,000
Acquired through the Winslow acquisition (see note 4)	91,000
Amortization	(894,000)
Reclassification to other receivables	(270,000)
Balance, September 30, 2020	\$ 4,269,000

NOTE 9. FAIR VALUE OF ASSETS AND LIABILITIES

US GAAP defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. Valuation techniques that are consistent with the market or income approach are used to measure fair value.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

Level 3 - Unobservable inputs which reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

The following tables present the carrying values and estimated fair values at September 30, 2020 and 2019 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy. Such instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

September 30, 2020				
Assets	Carrying Value	Level 1	Level 2	Total Estimated Fair Value
Cash	\$ 27,327,000	\$ 27,327,000	\$ —	\$ 27,327,000
Cash deposits with clearing organizations	686,000	686,000	—	686,000
Receivables from broker-dealers and clearing organizations	3,367,000	—	3,367,000	3,367,000
Forgivable loans receivable	4,269,000	—	4,269,000	4,269,000
Other Receivables, Net	12,394,000	—	12,394,000	12,394,000
	\$ 48,043,000	\$ 28,013,000	\$ 20,030,000	\$ 48,043,000
Liabilities				
Accrued commissions and payroll payable	15,445,000	—	15,445,000	15,445,000
Accounts payable and accrued expenses	9,656,000	—	9,656,000	9,656,000
	\$ 25,101,000	\$ —	\$ 25,101,000	\$ 25,101,000

September 30, 2019				
Assets	Carrying Value	Level 1	Level 2	Total Estimated Fair Value
Cash	\$ 30,443,000	\$ 30,443,000	\$ —	\$ 30,443,000
Cash deposits with clearing organizations	436,000	436,000	—	436,000
Receivables from broker-dealers and clearing organizations	3,490,000	—	3,490,000	3,490,000
Forgivable loans receivable	1,834,000	—	1,834,000	1,834,000
Other Receivables, Net	5,672,000	—	5,672,000	5,672,000
	\$ 41,875,000	\$ 30,879,000	\$ 10,996,000	\$ 41,875,000
Liabilities				
Accrued commissions and payroll payable	18,590,000	—	18,590,000	18,590,000
Accounts payable and accrued expenses	8,643,000	—	8,643,000	8,643,000
	\$ 27,233,000	\$ —	\$ 27,233,000	\$ 27,233,000

The following tables present the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2020 and 2019.

September 30, 2020					
Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Securities owned					
Corporate stocks	\$ 137,000	\$ 137,000	\$ —	\$ —	\$ 137,000
Municipal bonds	332,000	332,000	—	—	332,000
Restricted stock	529,000	—	529,000	—	529,000
Corporate Bonds	438,000	—	438,000	—	438,000
Warrants	3,303,000	—	2,228,000	1,075,000	3,303,000
	\$ 4,739,000	\$ 469,000	\$ 3,195,000	\$ 1,075,000	\$ 4,739,000
Liabilities					
Contingent consideration	10,401,000	—	—	10,401,000	10,401,000
	\$ 10,401,000	\$ —	\$ —	\$ 10,401,000	\$ 10,401,000
September 30, 2019					
Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Securities owned					
Corporate stocks	\$ 6,282,000	\$ 6,282,000	\$ —	\$ —	\$ 6,282,000
Municipal bonds	20,000	20,000	—	—	20,000
Restricted stock	725,000	—	725,000	—	725,000
Warrants	5,454,000	—	1,529,000	3,925,000	5,454,000
	\$ 12,481,000	\$ 6,302,000	\$ 2,254,000	\$ 3,925,000	\$ 12,481,000
Liabilities					
Contingent consideration	1,620,000	—	—	1,620,000	1,620,000
	\$ 1,620,000	\$ —	\$ —	\$ 1,620,000	\$ 1,620,000

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended September 30, 2020:

Assets	Beginning Balance as of September 30, 2019	Net Realized Gain or (losses)	Net Change in Unrealized Appreciation (Depreciation)	Purchases	Sales	Transfer into Level 3 (a)	Transfer Out of Level 3 (b)	Ending Balance as of September 30, 2020
Warrants	\$ 3,925,000	\$ —	\$ (2,401,000)	\$ —	\$ —	\$ 75,000	\$ (524,000)	\$ 1,075,000

(a) The Company received warrants as part of investment banking transactions.

(b) Transfer out consist of a transfer to Level 2 of a warrant as the underlying security became a publicly registered security and a warrant exercise.

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended September 30, 2019:

Assets	Beginning Balance as of September 30, 2018	Net realized Gain or (losses)	Net Change in Unrealized Appreciation (Depreciation)	Purchases	Sales	Transfer into Level 3 (a)	Transfer Out of Level 3 (b)	Ending Balance as of September 30, 2019
Warrants	\$ 3,279,000	\$ —	\$ (73,000)	\$ —	\$ —	\$ 883,000	\$ (164,000)	\$ 3,925,000

(a) The Company received warrants as part of investment banking transactions.

(b) Transfer out consist of a transfer to Level 2 of a warrant as the underlying security became a publicly registered security and a warrant exercise.

See changes in Level 3 liabilities (contingent consideration) measured at fair value on a recurring basis for the year ended September 30, 2020 and 2019 in Note 4.

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets measured at fair value on a recurring basis with a significant Level 3 balance as of September 30, 2020.

Financial Instruments Owned	Fair Value	Valuation Technique	Significant Unobservable Input(s)	Input/Range
Warrants	\$ 1,075,000	Market Approach	Discount for lack of marketability Volatility	25% - 46% 65% - 122%

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets measured at fair value on a recurring basis with a significant Level 3 balance as of September 30, 2019.

Financial Instruments Owned	Fair Value	Valuation Technique	Significant Unobservable Input(s)	Input/Range
Warrants	\$ 3,925,000	Market Approach	Discount for lack of marketability Volatility	21% - 44% 55% - 120%

Certain positions in common stock and warrants were received as compensation for investment banking services. Restricted common stock and warrants may be freely traded only upon the effectiveness of a registration statement covering them or upon the satisfaction of the requirements of SEC Rule 144, including the requisite holding period. The unrealized (loss)/gain for the change in fair value of such positions for 2020 and 2019 amounted to approximately \$(2,895,000) and \$(2,820,000), respectively, which is included in net dealer inventory gains.

Warrants are carried at fair value as determined by using the Black-Scholes option pricing model. This model takes into account the underlying securities current market values, the underlying securities market volatility, the terms of the warrants, exercise prices, and risk-free return rate. The market value of the underlying securities' market value is discounted based on the value of a protective put.

Debt securities are valued based on recently executed transactions.

NOTE 10. FIXED ASSETS

Fixed assets as of September 30, 2020 and 2019, respectively, consist of the following:

	September 30,		Estimated Useful Lives (in years)
	2020	2019	
Equipment	\$ 1,989,000	\$ 1,835,000	3 - 7 years
Furniture and fixtures	892,000	761,000	5 years
Construction in Process	21,000	—	N/A
Leasehold improvements	3,677,000	3,662,000	Lesser of useful life or term of lease
Capital leases (primarily composed of computer equipment)	907,000	907,000	3 - 7 years
	7,486,000	7,165,000	
Less accumulated depreciation and amortization	(3,104,000)	(2,098,000)	
Fixed assets - net	\$ 4,382,000	\$ 5,067,000	

Depreciation expense for the years ended September 30, 2020 and 2019 was \$1,006,000 and \$728,000 respectively.

NOTE 11. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES

Accounts payable and other accrued expenses as of September 30, 2020 and 2019, respectively, consist of the following:

	September 30,	
	2020	2019
Legal	\$ 1,068,000	\$ 900,000
Audit	318,000	239,000
Telecommunications	74,000	125,000
Data Services	467,000	296,000
Regulatory	2,176,000	292,000
Settlements	920,000	1,817,000
Deferred rent	—	772,000
Other	4,633,000	4,202,000
Total	\$ 9,656,000	\$ 8,643,000

At September 30, 2020, other primarily consists of \$151,000 for investment banking deal expense accruals, \$1,291,000 for soft dollar accruals, \$130,000 for tax return preparation fees, \$312,000 for finance obligation of the implementation costs of the general ledger system and \$493,000 for commercial rent tax. At September 30, 2019, other primarily consists of \$319,000 for investment banking deal expense accruals, \$1,188,000 for soft dollar accruals, \$119,000 for tax return preparation fees, \$595,000 for finance obligation of the annual subscription fee and implementation costs of the new general ledger system, \$380,000 for fixed assets acquired but not paid, \$396,000 for rent and \$228,000 for clearing fees.

In January 2019, the Company entered into an agreement for 36 months to finance the implementation costs of the new general ledger system in the amount of \$650,000. The related asset is included in other assets in the consolidated statements of financial condition.

NOTE 12. INCOME TAXES

The Company files a consolidated federal income tax return and certain combined state and local income tax returns with its subsidiaries. Income taxes consist of the following:

	2020		2019	
	Federal	State	Federal	State
Current income tax expense	\$ 275,000	\$ 765,000	\$ 424,000	\$ 263,000
Deferred income tax benefit	(2,172,000)	(733,000)	(145,000)	(223,000)
Total income tax expense	\$ (1,897,000)	\$ 32,000	\$ 279,000	\$ 40,000
				Total
				\$ 1,040,000
				(2,905,000)
				\$ (1,865,000)

The income tax provision related to pre-tax income (loss) vary from the federal statutory rate as follows:

	Years Ended September 30,	
	2020	2019
Statutory federal rate	21.0%	(21.0)%
State income taxes, net of federal income tax expense (benefit)	5.6%	1.8%
Permanent differences for tax purposes	(2.8)%	9.2%
Change in rate	(1.0)%	9.7%
Write-off of deferred tax asset attributable to change in ownership (see below)	—%	67.7%
Other	1.1%	(3.6)%
	23.9%	63.8%

Significant components of the Company's net deferred tax assets in the accompanying financial statements are as follows:

	September 30,	
	2020	2019
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 2,672,000	\$ 2,967,000
Operating lease liabilities	4,699,000	—
Contingent consideration	1,185,000	441,000
Stock based compensation	1,744,000	1,481,000
Accrued expenses	575,000	1,499,000
Accounts receivable and other receivables	147,000	91,000
Federal AMT credit carryforward	—	260,000
Expenses associated with forgiveness of PPP loans	1,834,000	—
Fixed assets	(1,073,000)	(510,000)
Intangibles	(2,390,000)	(448,000)
Right-of-use assets	(4,137,000)	—
Securities	(461,000)	(1,221,000)
Total deferred tax asset, net	\$ 4,795,000	\$ 4,560,000

At September 30, 2020, the Company had available federal net operating loss carryforwards of approximately \$11.9 million, which includes approximately \$4.6 million resulting from the National Tax acquisition, and state net operating loss carryforwards of approximately \$7.3 million that may be applied against future taxable income and expire at various dates between 2021 and 2039.

Due to the change in ownership discussed in Note 19, the Company's deferred tax asset relating to the Company's net operating loss carry forwards will be subject to an annual limitation under Section 382 of the Internal Revenue Code, thereby reducing the amount of net operating loss carry forwards available to the Company to offset future taxable income. Such reduction in 2019 resulted in a write-off of deferred income tax assets of \$339,000.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Litigation and Regulatory Matters

The Company and its subsidiaries are defendants or respondents in various pending and threatened arbitrations, administrative proceedings and lawsuits seeking compensatory damages. Several cases have no stated alleged damages. Claim amounts are infrequently indicative of the actual amounts the Company will be liable for, if any. Further, the Company has a history of collecting amounts awarded in these types of matters from its registered representatives that are still affiliated, as well as from those that are no longer affiliated. Many of these claimants also seek, in addition to compensatory damages, punitive or treble damages, and all seek interest, costs and fees. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and the ultimate outcome of these matters cannot be determined at this time.

On July 3, 2019, a lawsuit was filed against National Securities Corporation, National Asset Management, Inc., the Company, the Company's current board members and certain former board members, certain officers of the Company, John Does 1–10, and the Company as a nominal defendant, in the United States District Court for the Southern District of New York, captioned *Kay Johnson v. National Securities Corporation, et al., Case No. 1:19-cv-06197-LTS*. The complaint presents three purported derivative causes of action on behalf of the Company, and five causes of action by the plaintiff directly. As part of the derivative claims, the complaint generally alleges that certain of the individual defendants failed to establish and maintain adequate internal controls to ensure that the Board acted in accordance with its fiduciary duties to prevent and uncover alleged legal and regulatory misconduct and wrongdoing on the part of a National officer. As part of its claims brought directly by the plaintiff, the complaint generally alleges that certain individual and corporate defendants wrongfully terminated the employment of the plaintiff in violation of the Dodd-Frank Act and applicable common law, or conspired to do so. The complaint further alleges that certain corporate defendants violated the Equal Pay Act with regards to the plaintiff's compensation. The complaint seeks monetary damages in favor of the Company, an order directing the Company's board members to take actions to enhance the Company's governance, compensatory and punitive damages in favor of the plaintiff, and attorneys' fees and costs. On February 2, 2020, the plaintiff filed an amended complaint presenting additional causes of action. The Company has notified its insurer of the lawsuit and believes it has valid defenses to the asserted claims of the complaint. On March 18, 2020, the defendants filed a motion to dismiss the amended complaint. The plaintiff filed an opposition to the defendants' motion to dismiss on April 15, 2020, and the defendants filed a reply in further support of the motion to dismiss on May 6, 2020.

Liabilities for potential losses from complaints, legal actions, government investigations and proceedings are established where management believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, management bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect management's estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, management cannot predict with certainty the eventual loss or range of loss related to such matters.

In accordance with applicable accounting standards, the Company establishes an accrued liability for contingent litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. In such cases, there still may be an exposure to loss in excess of any amounts reasonably estimated and accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability, but continues to monitor, in conjunction with any outside counsel handling a matter, further developments that would make such loss contingency both probable and reasonably estimable. Once the Company establishes an accrued liability with respect to a loss contingency, the Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established, and any appropriate adjustments are made each quarter.

In making these decisions, management bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution.

Because of the broad differences in value ascribed to each case by each plaintiff and the Company, management cannot estimate the possible loss or range of loss, if any, in excess of any amounts reasonably estimated and accrued.

As of September 30, 2020 and 2019, the Company accrued approximately \$920,000 and \$1,817,000 respectively in liabilities for contingent litigation and regulatory matters. These amounts are included in accounts payable and other accrued expenses in the statements of financial condition. Amounts charged to operations for settlements and potential losses in fiscal years 2020 and 2019 were \$682,000 and \$3,008,000 respectively. These amounts are included in other administrative expenses in the statement of operations. The Company has included in professional fees litigation and arbitration related expenses of \$2,623,000 and \$2,052,000 for fiscal years 2020 and 2019, respectively.

Other Commitments

As of September 30, 2020 and 2019, the Company and its subsidiaries had one outstanding letter of credit, issued as security for a property lease, and is collateralized by the restricted cash as reflected in the statements of financial condition.

NOTE 14. STOCKHOLDERS' EQUITY

Share Repurchase

In August 2015, the Company's Board of Directors authorized the repurchase of up to \$2 million of the Company's common stock. Share repurchases, if any, will be made using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The Company's Board did not stipulate an expiration date for this repurchase and the purchase decisions are at the discretion of the Company's management. During the years ended September 30, 2020 and 2019, the Company did not repurchase any shares.

Restricted Stock Units

A summary of the Company's non-vested restricted stock units for the years ended September 30, 2020 and 2019 are as follows:

	Shares	Weighted Average Grant Due Fair Value
Non-vested restricted stock units at September 30, 2018	2,207,242	7,302,000
Granted	1,810,017	5,400,000
Vested	(563,711)	(2,261,000)
Forfeited	(134,908)	(435,000)
Non-Vested restricted stock units at September 30, 2019	3,318,640	10,006,000
Granted	904,616	2,188,000
Vested	(663,736)	(2,357,000)
Forfeited	(61,205)	(142,000)
Non-vested restricted stock units at September 30, 2020	3,498,315	9,695,000

In November 2018, the Company granted 1,447,292 RSUs to certain employees of the Company. RSUs vest based on service and certain performance and market conditions. The fair value of the RSUs awards issued in November 2018 was \$4,289,000.

In February 2019, the Company granted 265,960 RSUs to certain directors and employees of the Company. RSUs vest based on service and certain performance and market conditions. The fair value of the RSUs awards issued in February 2019 was \$843,000.

In April 2019, the Company granted 58,277 restricted stock awards ("RSAs") to an employee of the Company. RSAs vest based on service condition. The fair value of the RSAs issued in April 2019 was \$173,000.

In July 2019, the Company granted 17,925 RSAs to an employee of the Company. RSAs vest based on service condition. The fair value of the RSAs issued in July 2019 was \$48,000.

In August 2019, the Company granted 20,563 RSAs to an employee of the Company. RSAs vest based on service condition. The fair value of the RSAs issued in August 2019 was \$47,000.

In December 2019, the Company granted 702,000 RSUs to certain employees of the Company. RSUs vest based on certain performance conditions. The fair value of the RSU awards issued in December 2019 was \$1,839,000.

In January 2020, the Company granted 39,216 RSUs to an employee of the Company. RSUs vest based on certain service conditions. The fair value of the RSU awards issued in January 2020 was \$99,000.

In April 2020, the Company granted 163,400 RSUs to certain directors of the Company. RSUs vest based on certain service conditions. The fair value of the RSU awards issued in April 2020 was \$250,000.

One RSU and RSA gives the right to one share of the Company's common stock. RSU and RSAs that vest based on service and performance are measured based on the fair values of the underlying stock on the date of grant. The Company used a Lattice model to determine the fair value of the RSU with a market condition. Compensation with respect to RSU and RSA awards is expensed on a straight-line basis over the vesting period.

For the years ended September 30, 2020 and 2019, the Company recognized compensation expense of \$3,108,000 and \$4,282,000, respectively, related to RSUs and RSAs. At September 30, 2020, unrecognized compensation with respect to RSUs and RSAs amounted to \$4,106,000, which will be recognized over a weighted average period of 2.5 years, assuming all performance-based compensation will vest.

Stock Options

The Company's stock option plans provide for the granting of stock options to certain key employees, directors and investment executives. Generally, options outstanding under the Company's stock option plan are granted at prices equal to or above the market value of the stock on the date of grant, vest either immediately or ratably over up to five years, and expire five years subsequent to award.

The following option activity occurred under the Company's plan during the years ended September 30, 2020 and 2019:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Grant-Date Fair Value Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2018	612,000	\$ 6.23	\$ 1.59	3.27	
Forfeited or expired	(7,800)	5.54	2.69		
Outstanding at September 30, 2019	604,200	6.19	1.58	2.29	
Forfeited or expired	(335,000)	6.97	1.08		
Outstanding at September 30, 2020	269,200	5.22	2.19	2.83	
Vested and exercisable at September 30, 2020	269,200	\$ 5.22	\$ 2.19	2.83	\$ —

There was no recognized compensation expense in 2020 or 2019.

Warrants

The following tables summarize information about warrant activity during 2020 and 2019:

	Warrants	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Outstanding at September 30, 2018	12,436,427	3.25	3.30
Exercised	(38)	3.25	
Forfeited or expired	(7,037,482) (a)	3.25	
Outstanding at September 30, 2019	5,398,907	3.25	2.30
Exercised	—	—	
Forfeited or expired	—	—	
Outstanding and exercisable at September 30, 2020	5,398,907	\$ 3.25	1.30

(a) 7,037,482 warrants held by FBIO Acquisition were forfeited due to the FBIO sale. See note 19.

NOTE 15. NET CAPITAL REQUIREMENTS OF BROKER DEALER SUBSIDIARY

NSC is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which, among other things, requires the maintenance of minimum net capital. At September 30, 2020, NSC had net capital of \$3,812,891 which was \$2,812,891 in excess of its required minimum net capital of \$1,000,000. NSC is exempt from the provisions of Rule 15c3-3 since it is an introducing broker dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

WEC is also subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the Net Capital Rule, shall not exceed 15 to 1. At September 30, 2020, WEC had net capital of \$467,947 which was \$305,992 in excess of its required minimum net capital of \$161,955. WEC's ratio of aggregate indebtedness to net capital was 5.2 to 1. WEC is exempt from the provisions of Rule 15c3-3 since it is an introducing broker-dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

FSIC is also subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the Net Capital Rule, shall not exceed 15 to 1. At September 30, 2020, FSIC had net capital of \$117,538 which was \$112,538 in excess of its required minimum net capital of \$5,000. FSIC's ratio of aggregate indebtedness to net capital was 0.2 to 1. FSIC is exempt from the provisions of Rule 15c3-3 since it is an introducing broker-dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

Advances, dividend payments and other equity withdrawals from NSC, WEC and FSIC are restricted by the regulations of the SEC, and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company.

NOTE 16. OFF BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company's business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts for the Company on a fee basis. The Company permits the clearing firms to extend credit to its clientele secured by cash and securities in the client's account. The Company's exposure to credit risk associated with the non-performance by its customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company. The Company has agreed to indemnify the clearing brokers for losses they incur while extending credit to the Company's clients.

It is the Company's policy to review, as necessary, the credit standing of its customers and counterparties. Amounts due from customers that are considered uncollectible by the clearing broker are charged back to the Company by the clearing broker when such amounts become determinable. Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction and/or (iii) charged to operations, based on the particular facts and circumstances.

The Company maintains cash in bank deposits, which, at times, may exceed federally insured limits. The Company has not experienced and does not expect to experience losses on such accounts.

A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security (or a security exchangeable) at a later date at a lower price. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss.

To the extent the Company invests in marketable securities, the Company is subject to various market risks related to the portfolio.

As a result of the spread of COVID-19, economic uncertainties have arisen which have negatively impacted and are likely to continue to negatively impact our businesses, financial condition, results of operations, cash flows, strategies and prospects. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on our clients, employees, vendors and the markets in which we operate our businesses, all of which are uncertain at this time and cannot be predicted. The extent to which COVID-19 may impact our financial condition or results of operations cannot be reasonably estimated at this time.

NOTE 17. EMPLOYEE BENEFITS

The Company sponsors a defined contribution 401(k) plan (the "Plan"). Under the Plan, employees can elect to defer up to 75% of eligible compensation, subject to certain limitations, by making voluntary contributions to the Plan. The Company's contributions are made at the discretion of the Board of Directors. For the fiscal years ended September 30, 2020 and 2019, the Company made a contribution of \$220,000 and \$146,000, respectively, to the plan.

NOTE 18. SEGMENT INFORMATION

The Company has two reportable segments. The brokerage and advisory services segment includes broker-dealer and investment advisory services, sale of insurance products and licensed mortgage brokerage services provided by NSC, WEC, NAM, National Insurance, Prime Financial, GC, WIA, WF, UA, UAS and FSIC. The tax and accounting services segment includes tax preparation and accounting services provided by National Tax.

Corporate pre-tax income (loss) consists of certain expenses that have not been allocated to reportable segments.

Segment information for the years ended September 30, 2020 and 2019 is as follows:

	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
2020				
Revenues	\$ 219,724,000	\$ 10,149,000	\$ 2,000	\$ 229,875,000
Pre-tax income (loss)	(2,230,000)	(101,000)	(5,748,000) (a)	(8,079,000)
Identifiable assets	81,590,000	9,159,000	16,488,000 (b)	107,237,000
Depreciation and amortization	1,451,000	716,000	687,000	2,854,000
Interest	90,000	—	—	90,000
Capital expenditures	(45,000)	141,000	145,000	241,000
	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
2019				
Revenues	\$ 204,134,000	\$ 8,807,000	\$ —	\$ 212,941,000
Pre-tax income (loss)	7,522,000	85,000	(5,447,000) (a)	2,160,000
Identifiable assets	61,880,000	4,313,000	15,014,000 (b)	81,207,000
Depreciation and amortization	841,000	490,000	501,000	1,832,000
Interest	32,000	—	—	32,000
Capital expenditures	776,000	75,000	2,273,000	3,124,000

(a) Consists of board of director fees and other expenses not allocated to reportable segments by management.

(b) Consists principally of deferred tax assets, cash, prepaid and fixed asset balances held at Corporate.

NOTE 19. ACQUISITION OF CONTROLLING INTEREST IN THE COMPANY

On November 14, 2018, B. Riley Financial, Inc. (“B. Riley”) and FBIO Acquisition, Inc. (“FBIO Acquisition”), a subsidiary of Fortress Biotech, Inc. (“Fortress”), entered into a stock purchase agreement whereby FBIO Acquisition agreed to sell FBIO Acquisition’s majority stake in the Company to a wholly-owned subsidiary of B. Riley (the “FBIO Sale”). In connection with the FBIO Sale, the Company entered into an agreement with B. Riley (the “B. Riley Agreement”), pursuant to which B. Riley agreed to certain customary standstill provisions, effective as of the date of the B. Riley Agreement through December 31, 2021.

B. Riley Proposal

On April 30, 2020, B. Riley and the Company entered into a waiver of certain provisions of the B. Riley Agreement and in connection therewith, B. Riley amended its Schedule 13D filing relating to the Company and sent the Board a letter containing a proposal regarding the Company. The Company’s Board formed a Special Committee of non-executive, independent directors to review the B. Riley proposal.

NOTE 20. REVENUES FROM CONTRACTS AND SIGNIFICANT CUSTOMERS

Performance Obligations

The Company recognizes revenue from contracts with customers when, or as, the Company satisfies its performance obligations by transferring the promised goods or services to the customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service.

Transaction Price and Variable Consideration

The amount of revenue recognized reflects the consideration (“transaction price”) the Company expects to be entitled to in exchange for the transfer of the goods or services to the customer services. In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of influence, such as market volatility or the judgment and actions of third parties.

Contract Assets

Contract assets represent the Company’s right to consideration in exchange for goods or services that the Company has transferred to a customer, excluding unconditional rights to consideration that are presented as receivables.

Contract Liabilities

Contract liabilities represent the Company’s obligation to deliver products or provide data to customers in the future for which cash has already been received.

The following provides detailed information on the recognition of the Company’s revenues from contracts with customers:

Commissions and Transaction Fees and Clearing Services. The Company earns commission and transaction fee and clearing services revenue based on the execution of transactions for clients in stocks, mutual funds, variable annuities and other financial products and services as well as from trailing commissions. Trade execution and settlement, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission and transaction fee and clearing services revenues are recognized at a point in time on trade-date. Commission and transaction fee and clearing services revenues are generally paid on settlement date and the Company records a receivable between trade-date and payment on settlement date. For trailing commissions, the performance obligation is satisfied at the time of the execution of the transactions but the amount to be received for trailing commissions is uncertain, as it is dependent on the value of the investments at future points in time as well as the length of time the investor holds the investments, both of which are highly susceptible to variable factors outside the Company’s influence. The Company does not believe that it can overcome this constraint until the market value of the investment and the investor activities are known, which are usually monthly or quarterly. The Company’s consolidated statement of operations reflects trailing commissions for services performed and performance obligations satisfied in previous periods and are recognized in the period that the constraint is overcome.

Investment Banking. The Company provides clients with a full range of investment banking services. Investment banking services include underwriting and placement agent services in both equity and debt, including private equity placements, initial public offerings, follow-on offerings and equity-linked convertible securities transactions and private debt. Underwriting and placement agent revenues are recognized at a point in time on trade-date, as the client obtains the control and benefit of the investment banking offering at that point. Costs associated with investment banking transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded and are recorded on a gross basis as the Company is acting as a principal in the arrangement. Any expenses reimbursed by the Company’s clients are recognized as investment banking revenues. Where the Company is the lead underwriter, revenue and expenses will be first allocated to other members of a syndicate because the Company is acting as an agent for the syndicate. Accordingly, the Company records revenue on a net basis. When the Company is not the lead underwriter, the Company will recognize its share of revenue and expenses on a gross basis, because the Company is acting as the principal. Under accounting standards in effect for prior periods, the Company recognized all underwriting revenue on a net basis.

The Company's revenues from advisory services primarily consist of fees generated in connection with mergers and acquisition and advisory transactions. Advisory fees from mergers and acquisitions engagements are recognized at a point in time when the related transaction is completed, as the performance obligation is to successfully execute a specific transaction. Fees received prior to the completion of the transaction are deferred within other liabilities in the consolidated statements of financial condition. A significant portion of the fees the Company receives for advisory services are considered variable as they are contingent upon a future event and are excluded from the transaction price until the uncertainty associated with the variable consideration is subsequently resolved, which is expected to occur upon achievement of the specified milestone. Payment for advisory services is generally due promptly upon completion of a specified milestone or, for retainer fees, periodically over the course of the engagement. The Company recognizes a receivable between the date of completion of the milestone and payment by the customer. Expenses associated with investment banking advisory engagements are deferred only to the extent they are explicitly reimbursable by the client and the related revenue is recognized at a point in time. All other investment banking advisory related costs are expensed as incurred. All investment banking advisory expenses are recognized within their respective expense category on the consolidated statements of operations and any expenses reimbursed by the clients are recognized as investment banking revenues. The Company controls the service as it is transferred to the customer, and is therefore acting as a principal. Accordingly, the Company records revenues and out-of-pocket reimbursements on a gross basis. Under accounting standards in effect for prior periods, the Company recorded expenses net of client reimbursements and/or netted against revenues.

Investment Advisory/Asset Management Fees. The Company receives management and performance fees in connection with investment advisory services provided to various funds and accounts, which are satisfied over time as the customer receives the benefits of the services evenly throughout the term of the contract. Management and performance fees are considered variable as they are subject to fluctuation (e.g., changes in assets under management, market performance) and/or are contingent on a future event during the measurement period (e.g., meeting a specified benchmark) and are recognized only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. Management fees are generally based on month-end assets under management or an agreed upon notional amount and are included in the transaction price at the end of each month when the assets under management or notional amount is known. Performance fees are received when the return on assets under management for a specified performance period exceed certain benchmark returns, "high-water marks" or other performance targets. The performance period related to performance fees is annual, semiannual or at the recognition of a liquidation event. Accordingly, performance fee revenue will generally be recognized only at the end of the performance period to the extent that the benchmark return has been met.

Tax Preparation and Accounting. The Company charges fees in connection with tax preparation and accounting services. Revenues are recorded upon completion of the services.

Disaggregation of Revenue

The following presents the Company's revenues from contracts with customers disaggregated by major business activity and segment for the twelve months ended September 30, 2020:

For the Twelve Months Ended September 30, 2020	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Revenues from customer contracts:				
Commissions and transfer fees and clearing services	\$ 126,855,000	\$ —	\$ —	\$ 126,855,000
Investment banking	51,280,000	—	—	51,280,000
Investment advisory	35,676,000	—	—	35,676,000
Tax preparation and accounting	—	10,148,000	—	10,148,000
Sub-total revenue from contracts with customers	213,811,000	10,148,000	—	223,959,000
Other revenue	5,913,000	1,000	2,000	5,916,000
Total revenue	<u>\$ 219,724,000</u>	<u>\$ 10,149,000</u>	<u>\$ 2,000</u>	<u>\$ 229,875,000</u>

For the Twelve Months Ended September 30, 2019	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Revenues from customer contracts:				
Commissions and transfer fees and clearing services	\$ 95,021,000	\$ —	\$ —	\$ 95,021,000
Investment banking	69,656,000	—	—	69,656,000
Investment advisory	34,400,000	—	—	34,400,000
Tax preparation and accounting	—	8,807,000	—	8,807,000
Sub-total revenue from contracts with customers	199,077,000	8,807,000	—	207,884,000
Other revenue	5,057,000	—	—	5,057,000
Total revenue	<u>\$ 204,134,000</u>	<u>\$ 8,807,000</u>	<u>\$ —</u>	<u>\$ 212,941,000</u>

Information on Remaining Performance Obligations and Revenue Recognized from Past Performance

The Company does not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at September 30, 2020. Investment banking advisory fees that are contingent upon completion of a specific milestone are also excluded as the fees are considered variable and not included in the transaction price at September 30, 2020.

Contract Balances

The timing of the Company's revenue recognition may differ from the timing of payment by customers. The Company records a receivable when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

Contract Costs

Incremental contract costs are expensed when incurred when the amortization period of the asset that would have been recognized is one year or less. Otherwise, incremental contract costs are recognized as an asset and amortized over time as services are provided to a customer.

NOTE 21. LEASES

The Company's lease agreements primarily cover office space in various states expiring at various dates. The Company's leases are predominantly operating leases, which are included in right-of-use assets and operating lease liabilities on the Company's consolidated statements of financial condition. The Company's current lease arrangements expire from 2020 through 2032, some of which include options to extend or terminate the lease. However, the Company in general is not reasonably certain to exercise options to renew or terminate, and therefore renewal and termination options are not considered in the lease term or the right-of-use asset and lease liability balances.

The Company's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the lease balances. The Company has leases with variable payments, most commonly in the form of common area maintenance charges which are based on actual costs incurred. These variable payments were excluded from the right-of-use asset and lease liability balances since they are not fixed or in-substance fixed payments. The Company has lease agreements with lease and non-lease components. The Company has elected the practical expedient to account for lease and non-lease components as a single lease component.

For leases with terms greater than 12 months, right-of-use assets and lease liabilities are recognized at the implementation date of Topic 842 or lease commencement date based on the present value of the future lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes its incremental borrowing rate. The Company's lease agreements generally do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, the Company estimates the Company's incremental borrowing rate based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into thereafter in determining the present value of future payments. Lease expense for net present value of payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less with purchase options or extension options that are not reasonably certain to be exercised are not recorded on the consolidated statements of financial condition. The Company recognizes lease expense for these leases on a straight-line basis over the term of the lease.

In October 2018, the Company entered into an agreement to lease equipment under a finance lease for 24 months. The equipment under the lease is collateral for the lease obligation and is included within fixed assets in the consolidated statements of financial condition. The leased equipment is amortized on a straight line basis over 7 years. The interest rate related to the lease obligation is 5.6 percent and the maturity date is October 2020. The finance lease obligation is included within other liabilities in the consolidated statements of financial condition.

The components of lease expense were as follows:

	Year Ended September 30, 2020
Operating lease cost:	<u>\$ 5,258,000</u>
Finance lease cost:	
Amortization of finance lease assets	\$ 77,000
Interest on finance lease liabilities	<u>10,000</u>
Total finance lease cost	<u>\$ 87,000</u>
Sublease income:	<u>\$ 345,000</u>

The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases, recorded on the consolidated statements of financial condition as of September 30, 2020:

Fiscal Year Ending September 30,	Operating Leases	Finance Lease
2021	\$ 4,385,000	\$ 51,000
2022	2,746,000	—
2023	2,588,000	—
2024	2,400,000	—
2025	2,258,000	—
Thereafter	6,071,000	—
Total minimum lease payments	<u>20,448,000</u>	<u>\$ 51,000</u>
Less: Amounts representing interest not yet incurred	3,729,000	—
Present value of lease obligations	<u>\$ 16,719,000</u>	<u>\$ 51,000</u>

The following table presents the balances for operating and finance right-of-use assets and lease liabilities:

Leases	Classification	September 30, 2020
Assets		
Operating lease assets	Right-of-use assets	\$ 14,721,000
Finance lease assets	Fixed assets	336,000
Total lease assets		\$ 15,057,000
Liabilities		
Operating lease liabilities	Operating lease liabilities	\$ 16,719,000
Finance lease liabilities	Other liabilities	51,000
Total lease liabilities		\$ 16,770,000

The table below presents additional information related to the Company's leases as of September 30, 2020:

	For the Year Ended September 30, 2020
Supplemental cash flow information and non-cash activity:	
Cash paid for amounts related to lease liabilities	
Operating cash flows from finance leases (interest)	\$ 10,000
Operating cash flows from operating leases (lease payments reflected in the change in accounts payable, accrued expenses and other liabilities in the statement of cash flows)	\$ 4,006,000
Financing cash flows from finance leases (principal payments)	\$ 236,000
Operating lease assets obtained in exchange for lease liabilities	\$ 1,574,000
Weighted Average Remaining Lease Term:	
Operating Leases (in years)	7.28
Weighted Average Discount Rate:	
Operating Leases	5.5%

NOTE 22. PAYCHECK PROTECTION PROGRAM

On April 10, 2020, NSC entered into a Promissory Note (the "NSC Note") with Axos Bank as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to NSC under the Paycheck Protection Program (the "NSC Loan") offered by the U.S. Small Business Administration (the "SBA") pursuant to the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to qualified small businesses (the "PPP") in a principal amount of \$5,523,738. On April 15, 2020, WEC also entered into a Promissory Note (the "WEC Note" and together with the NSC Note, the "PPP Notes") with the Lender, pursuant to which the Lender agreed to make a loan to WEC under the PPP (the "WEC Loan" and together with the NSC Loan, the "PPP Loans") in a principal amount of \$973,062.

The interest rate on each PPP Note is a fixed rate of 1% per annum. Interest is calculated by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. The applicable borrower is required to make monthly payments commencing on the first day of the first full calendar month following the end of a statutorily defined deferral period (the "Deferral Period"), and such payments shall continue to be due and payable on the first day of each calendar month thereafter until the date that is two (2) years following the funding date (the "Maturity Date"), or April 13, 2022 in the case of the NSC Note and April 16, 2022 in the case of the WEC Note. Monthly payment amounts are based on repayment of interest accrued during the Deferral Period, interest accruing until and including the Maturity Date, and full amortization of the outstanding principal balance. The PPP loans are recorded as debt.

According to the terms of the PPP, all or a portion of loans under the PPP may be forgiven if certain conditions set forth in the CARES Act and the rules of the SBA are met. In order to be forgiven, the proceeds of each PPP Loan are to be used to pay for payroll costs, continuation of group health care benefits during periods of paid sick, medical, or family leave, or insurance premiums; salaries or commissions or similar compensation; rent; utilities; and interest on certain other outstanding debt; however, 60% of the proceeds of each PPP Loan must be used for payroll purposes.

At its option, each of NSC and WEC may prepay all or a portion of its PPP Loan without penalty.

Each PPP Note includes events of default, the occurrence and continuation of which would provide the Lender with the right to exercise remedies against NSC or WEC, as applicable, including the right to declare the entire unpaid principal balance under the applicable PPP Note and all accrued unpaid interest immediately due.

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

The following description of registered securities of National Holdings Corporation (“us,” “our,” “we” or the “Company”) is intended as a summary only and therefore is not a complete description. This description is based upon, and is qualified by reference to, our certificate of incorporation, our bylaws and applicable provisions of the Delaware General Corporation Law (the “DGCL”). You should read our certificate of incorporation and bylaws, as amended, which are incorporated by reference as Exhibit 3.1 and Exhibit 3.2, respectively, to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part, for the provisions that are important to you.

Authorized Capital Stock

Our authorized capital stock consists of 75,000,000 shares of common stock, par value \$0.02 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. Our common stock is registered under Section 12(b) of the Exchange Act.

Common Stock

Voting Rights. Each holder of shares of our common stock is entitled to one vote for each share of such common stock held by such holder, and voting power with respect to all classes of our securities shall be vested solely in our common stock. Under our bylaws, the holders of a majority of the voting power of the issued and outstanding stock entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of stockholders, except as otherwise provided by statute or by our certificate of incorporation. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power of our issued and outstanding stock entitled to vote thereon, present in person or represented by proxy, shall decide any questions brought before such meeting, unless the question is one upon which by express provision of statute or of the certificate of incorporation or of the bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Any meeting of stockholders may be adjourned from time to time to reconvene at any other time and to any other place at which a meeting of stockholders may be held under our bylaws by the chairman of the meeting. At such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally called.

Special Meetings of Stockholders. A special meeting of stockholders may be called at any time by our Board or the Chairman of the Board, if one shall have been elected, or the President and shall be called by the Secretary upon the request in writing of a stockholder or stockholders holding of record at least one-third of the voting power of our issued and outstanding shares of stock entitled to vote at such meeting.

Stockholder Action by Written Consent. Our certificate of incorporation provides that any action required to be taken at any annual or special meeting of the holders of our common stock may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Dividends. Subject to the dividend rights of the outstanding shares of issued and outstanding preferred stock, holders of our common stock are entitled to receive dividends, when, as and if declared by our board of directors out of assets lawfully available for such purposes. No dividends shall be paid on any shares of our common stock unless the same dividend is paid on all shares of our common stock outstanding at the time of such payment.

Rights upon Liquidation, Dissolution or Winding Up. In the event of any distribution of assets upon liquidation, dissolution or winding up of our affairs, holders of our common stock will be entitled to share ratably and equally all of our assets and funds remaining after payment to the holders of our preferred stock of the specific amounts which they are entitled to receive upon such liquidation, dissolution or winding up of our company.

Other Rights. Holders of our common stock have no subscription, redemption or conversion rights, nor do they have any preemptive or other rights to acquire or subscribe for additional, unissued or treasury shares. Accordingly, if we were to elect to sell additional shares of our common stock, persons acquiring our common stock in this offering would have no right to purchase additional shares and, as a result, their percentage equity interest in the Company would be reduced.

Preferred Stock

Our Board is authorized to issue from time to time, in one or more designated series, any or all of its authorized but unissued shares of preferred stock with dividend, redemption, conversion, exchange, voting and other provisions as may be provided in that particular series.

Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws

Number of Directors; Filling Vacancies. Our certificate of incorporation and bylaws provide that the number of directors constituting the board of directors will be determined by the affirmative vote of the board of directors or by action of its stockholders. Any vacancy occurring in the board of directors, including any vacancy created by reason of an increase in the number of directors, shall be filled for the unexpired term by the concurring vote of a majority of the directors then in office, whether or not a quorum, or by the sole remaining director or by the stockholders at the next annual meeting thereof or at a special meeting thereof. Each director so elected shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

Classification of Directors. Our bylaws provide that the directors shall be classified in respect to the time for which they shall severally hold office, by dividing them into three classes. The number of directors in each class shall be as nearly equal as possible. At each annual election, any vacancy in any class of directors may be filled and successors to the class of directors whose terms shall expire that year shall be elected to hold office for a term of three years, so that the term of office of one class of directors shall expire in each year. In the event the number of directors is increased, election may be made to a class of directors with terms expiring in three years or less in order to maintain proportionate equality between the classes. Any decrease in the number of directors shall be effective at the time of the next succeeding annual meeting of stockholders unless there are vacancies in our board of directors, in which case such decrease may become effective at any time prior to the next succeeding annual meeting to the extent of the number of such vacancies. Each director shall hold office until the expiration of the term for which he is elected and until his successor has been elected and qualified, or until his prior resignation or removal.

Amendments to Bylaws. Our bylaws provide that they may be amended or repealed or new bylaws may be adopted by action of the stockholders entitled to vote thereon at any annual or special meeting of stockholders or by action of the Company's board of directors at a regular or special meeting thereof.

Section 203 of the DGCL. We are subject to Section 203 of the DGCL. Under this provision, we may not engage in any business combination with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless:

- prior to such time our board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
 - upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
 - at or subsequent to such time the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.
-

Section 203 defines “business combination” to include the following:

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to some exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an “interested stockholder” as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

The Company has waived the applicability of Section 203 with respect to the ownership of shares acquired by B. Riley Financial, subject to the execution of that certain Agreement dated November 14, 2018, containing standstill and other provisions.

NATIONAL HOLDINGS CORPORATION

September 30, 2020

The following is a list of subsidiaries of the company as of September 30, 2020, omitting subsidiaries which, considered in the aggregate, would not constitute a significant subsidiary.

Subsidiary Name	State of Incorporation	Percentage of Voting Securities Owned
National Securities Corporation	Washington	100%
National Asset Management, Inc.	Washington	100%
National Insurance Corporation	Washington	100%
National Tax and Financial Services, Inc.	Delaware	100%
GC Capital Corporation	Delaware	(1)
Prime Financial Services, Inc.	Delaware	(1)(2)
Winslow Evans & Crocker, Inc.	Massachusetts	100%
Winslow Evans & Crocker Insurance Agency, Inc.	Massachusetts	100%
Winslow Financial, Inc.	Massachusetts	100%
United Advisors, LLC	New Jersey	100%
United Advisor Services, LLC	New Jersey	100%
Financial Services International Corporation	Washington	100%

(1) Indirectly wholly owned by our company, 100% owned by National Tax and Financial Services, Inc.

(2) Operations consist solely of collecting trails on historic insurance business. All new business written under National Insurance Corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of National Holdings Corporation on Form S-3 (No. 333-226853) and Form S-8 (No. 333-231832) of our report dated December 29, 2020, on our audits of the consolidated financial statements of National Holdings Corporation and Subsidiaries as of September 30, 2020 and 2019 and for each of the years ended, which report is included in this Annual Report on Form 10-K to be filed on or about December 29, 2020.

/s/ EisnerAmper LLP

EISNERAMPER LLP
New York, New York
December 29, 2020

**CERTIFICATION OF PERIODIC REPORT PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Michael A. Mullen, certify that:

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

/s/ Michael A. Mullen

Michael A. Mullen

Chief Executive Officer (Principal Executive Officer)

December 29, 2020

**CERTIFICATION OF PERIODIC REPORT PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Glenn C. Worman, certify that:

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

/s/ Glenn C. Worman

Glenn C. Worman

Chief Financial Officer (Principal Financial Officer)

December 29, 2020

**STATEMENT OF CHIEF EXECUTIVE OFFICER OF
NATIONAL HOLDINGS CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of National Holdings Corporation (the "Company") on Form 10-K for the fiscal year ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael A. Mullen, Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/ Michael A. Mullen

Michael A. Mullen

Chief Executive Officer (Principal Executive Officer)

December 29, 2020

**STATEMENT OF CHIEF FINANCIAL OFFICER OF
NATIONAL HOLDINGS CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of National Holdings Corporation (the "Company") on Form 10-K for fiscal year ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glenn C. Worman, Chief Financial Officer (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/ Glenn C. Worman

Glenn C. Worman

Chief Financial Officer (Principal Financial Officer)

December 29, 2020