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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

or

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

Commission File Number: 001-12629

NATIONAL HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-4128138**
(State or other jurisdiction of incorporation or organization)	**(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:

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES☐NO☒

As of January 31, 2021 there were 13,765,304 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION
FORM 10-Q
QUARTERLY PERIOD ENDED DECEMBER 31, 2020

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FORWARD-LOOKING STATEMENTS

The following information provides cautionary statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements we make in this report or in other documents that reference this report. All statements that express or involve discussions as to: expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, identified through the use of words or phrases such as we or our management believes, expects, anticipates or hopes and words or phrases such as will result, are expected to, will continue, is anticipated, estimated, projection and outlook, and words of similar import) are not statements of historical facts and may be forward-looking. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties including, but not limited to, economic, competitive, regulatory, growth strategies, available financing and other factors discussed elsewhere in this report and in the documents filed by us with the Securities and Exchange Commission ("SEC"). Many of these factors are beyond our control. Actual results could differ materially from the forward-looking statements we make in this report or in other documents that reference this report. In light of these risks and uncertainties, there can be no assurance that the results anticipated in the forward-looking information contained in this report or other documents that reference this report will, in fact, occur.

These forward-looking statements involve estimates, assumptions and uncertainties, and, accordingly, actual results could differ materially from those expressed in the forward-looking statements. These uncertainties include, among others, the following: (i) general economic conditions; (ii) our ability to obtain future financing or funds when needed; (iii) our ability to maintain sufficient regulatory net capital; (iv) the ability of our broker-dealer operations to operate profitably in the face of intense competition from larger full service and discount brokers; (v) a general decrease in merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed; (vi) increased competition from business development portals; (vii) technological changes; (viii) our potential inability to implement our growth strategy through acquisitions or joint ventures; (ix) acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties; (x) our continued ability to maintain and execute our business strategy; (xi) the impact of the ongoing COVID-19 pandemic on our business operations; (xii) the previously announced cash tender offer by B. Riley Financial to purchase certain shares of our common stock; and (xiii) the previously announced potential merger with B. Riley Financial.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time and it is not possible for our management to predict all of such factors, nor can our management assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2020 (Unaudited)	September 30, 2020
ASSETS		
Cash	$ 27,965,000	$ 27,327,000
Restricted cash	962,000	962,000
Cash deposits with clearing organizations	686,000	686,000
Securities owned, at fair value	4,652,000	4,739,000
Receivables from broker-dealers and clearing organizations	5,198,000	3,367,000
Forgivable loans receivable	4,608,000	4,269,000
Other receivables, net	10,593,000	12,394,000
Prepaid expenses	6,565,000	4,258,000
Fixed assets, net	4,210,000	4,382,000
Intangible assets, net	12,532,000	12,276,000
Goodwill	11,673,000	11,673,000
Deferred tax asset, net	3,358,000	4,795,000
Right-of-use assets	13,868,000	14,721,000
Other assets	1,727,000	1,388,000
Total Assets	**$ 108,597,000**	**$ 107,237,000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accrued commissions and payroll payable	17,993,000	15,445,000
Accounts payable and accrued expenses	9,374,000	9,656,000
Deferred clearing and marketing credits	105,000	157,000
Contingent consideration	10,702,000	10,401,000
Operating lease liabilities	15,864,000	16,719,000
PPP loans	6,538,000	6,523,000
Other	1,549,000	1,701,000
Total Liabilities	**62,125,000**	**60,602,000**
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; none outstanding	—	—
Common stock $0.02 par value, authorized 75,000,000 shares at December 31, 2020 and September 30, 2020; 13,765,304 shares issued and outstanding at December 31, 2020 and 13,639,622 shares issued and outstanding at September 30, 2020	275,000	273,000
Additional paid-in-capital	93,773,000	93,079,000
Accumulated deficit	(47,576,000)	(46,717,000)
Total National Holdings Corporation Stockholders' Equity	**46,472,000**	**46,635,000**
Total Liabilities and Stockholders' Equity	**$ 108,597,000**	**$ 107,237,000**

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Month Period Ended December 31, 2020	Three Month Period Ended December 31, 2019
Revenues		
Commissions	$ 33,613,000	$ 23,167,000
Net dealer inventory gains (losses)	1,330,000	1,192,000
Investment banking	15,242,000	15,227,000
Investment advisory	12,730,000	7,389,000
Interest and dividends	885,000	1,394,000
Transaction fees and clearing services	2,509,000	1,775,000
Tax preparation and accounting	1,412,000	931,000
Other	111,000	116,000
Total Revenues	**67,832,000**	**51,191,000**
Operating Expenses		
Commissions, compensation and fees	56,735,000	44,121,000
Clearing fees	2,564,000	1,502,000
Communications	984,000	674,000
Occupancy	1,302,000	1,168,000
License and registration	863,000	1,024,000
Professional fees	3,145,000	2,194,000
Interest	20,000	14,000
Depreciation and amortization	846,000	530,000
Other administrative expenses	2,669,000	2,304,000
Total Operating Expenses	**69,128,000**	**53,531,000**
Income (Loss) before Other Income (Expense) and Income Taxes	**(1,296,000)**	**(2,340,000)**
Other Income (Expense)		
Other income (expense)	9,000	116,000
Total Other Income	**9,000**	**116,000**
Income (Loss) before Income Taxes	**(1,287,000)**	**(2,224,000)**
Income tax expense (benefit)	(428,000)	(725,000)
Net Income (Loss)	**(859,000)**	**(1,499,000)**
Net income attributable to non-controlling interest	—	(94,000)
Net income (loss) attributable to National Holdings Corporation common shareholders	$ **(859,000)**	$ **(1,593,000)**
Net income (loss) per share attributable to National Holdings Corporation common shareholders - Basic	$ **(0.06)**	$ **(0.12)**
Net income (loss) per share attributable to National Holdings Corporation common shareholders - Diluted	$ **(0.06)**	$ **(0.12)**
Weighted average number of shares outstanding - Basic	**13,639,622**	**13,169,025**
Weighted average number of shares outstanding - Diluted	**13,639,622**	**13,169,025**

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
FOR THE THREE MONTHS ENDED December 31, 2020 and 2019

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Non-controlling Interest	Total Stockholders' Equity
	Shares	$ Amount				
Balance, September 30, 2020	13,639,622	$ 273,000	$ 93,079,000	$ (46,717,000)	$ —	$ 46,635,000
Stock-based compensation for restricted stock units	—	—	781,000	—	—	781,000
Issuance of shares of common stock with respect to vested restricted stock units, net of 47,003 shares valued at $85,000 tendered for tax withholding	125,682	2,000	(87,000)	—	—	(85,000)
Net income (loss)	—	—	—	(859,000)	—	(859,000)
Balance, December 31, 2020	13,765,304	$ 275,000	$ 93,773,000	$ (47,576,000)	$ —	$ 46,472,000

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Non-controlling Interest	Total Stockholders' Equity
	Shares	$ Amount				
Balance, Balance, October 1, 2018	13,158,441	$ 263,000	$ 90,354,000	$ (40,779,000)	$ 1,761,000	$ 51,599,000
Stock-based compensation for restricted stock units	—	—	907,000	—	—	907,000
Issuance of shares of common stock with respect to vested restricted stock units, net of 52,291 shares valued at $139,000 tendered for tax withholding	120,394	2,000	(141,000)	—	—	(139,000)
Net income (loss)	—	—	—	(1,593,000)	94,000	(1,499,000)
Balance, December 31, 2019	13,278,835	$ 265,000	$ 91,120,000	$ (42,372,000)	$ 1,855,000	$ 50,868,000

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For The Three Month Period Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (859,000)	$ (1,499,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	846,000	530,000
Amortization of forgivable loans	241,000	163,000
Stock-based compensation	781,000	907,000
Provision (recovery) for doubtful accounts	150,000	171,000
Amortization of deferred clearing and marketing credit	(52,000)	(53,000)
Change in fair value of contingent consideration	(24,000)	19,000
Deferred tax expense	(396,000)	59,000
Amortization of right-of-use assets	951,000	700,000
Changes in assets and liabilities, net of business acquisitions		
Securities owned, at fair value	87,000	2,680,000
Receivables from broker-dealers and clearing organizations	(1,831,000)	1,549,000
Forgivable loans receivable	(753,000)	(1,393,000)
Other receivables, net	1,807,000	(1,223,000)
Prepaid expenses	(474,000)	(1,301,000)
Other assets	(339,000)	(201,000)
Accrued commissions and payroll payable, accounts payable and accrued expenses and other liabilities	1,287,000	(7,434,000)
Net cash provided by (used in) operating activities	**1,422,000**	**(6,326,000)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of businesses, net of cash received	(250,000)	(1,805,000)
Purchase of fixed assets	(79,000)	(91,000)
Collection on notes receivable	17,000	18,000
Net cash used in investing activities	**(312,000)**	**(1,878,000)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock for tax withholding	(85,000)	(139,000)
Principal payments under finance lease obligations	(51,000)	(58,000)
Principal payments under finance obligations	(60,000)	(108,000)
Contingent consideration payments	(276,000)	(112,000)
Net cash used in financing activities	**(472,000)**	**(417,000)**
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	**638,000**	**(8,621,000)**
CASH AND RESTRICTED CASH BALANCE		
Beginning of the period	**28,289,000**	**31,403,000**
End of the period	$ **28,927,000**	$ **22,782,000**

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(Unaudited)

	For The Three Month Period Ended December 31,	
	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 7,000	$ 14,000
Income taxes, net of refunds	$ (29,000)	$ 88,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Fixed assets (acquired but not paid)	$ —	$ 30,000
Businesses acquired (See Note 7)		
Assets acquired including goodwill	$ 851,000	$ 9,108,000
Contingent consideration payable	(601,000)	(4,819,000)
Additional consideration payable (net operating capital)	—	(873,000)
Escrow deposit	—	(500,000)
Cash received	—	(1,111,000)
Cash paid, net of cash received	$ 250,000	$ 1,805,000

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

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements as of December 31, 2020 and for the three months ended December 31, 2020 and 2019 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the respective fiscal years. The consolidated statement of financial condition at September 30, 2020 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. The accompanying consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020 for additional disclosures and accounting policies.

Certain items in the condensed consolidated statement of operations for the fiscal 2020 period have been reclassified to conform to the presentation in the fiscal 2021 period. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

Non-controlling Interest

The Company's wholly-owned subsidiary, National Asset Management, Inc., a Washington corporation ("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 Note 19). 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.

NOTE 2. 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 micro, small and mid-cap high growth companies and (3) engages in trading securities, including making markets in micro and small-cap, NASDAQ and other exchange-listed stocks.

The Company's broker-dealer subsidiaries are National Securities Corporation, a Washington 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") and the Securities Investor Protection Corporation (the "SIPC").

The Company's wholly-owned subsidiary, 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.

The Company's 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.

The Company's wholly-owned subsidiary, National Tax and Financial Services, Inc. ("National Tax"), provides tax preparation and accounting services to individuals and small to midsize companies.

The Company's wholly-owned subsidiary, GC Capital Corporation ("GC"), provides licensed mortgage brokerage services in New York and Florida.

The Company's wholly-owned subsidiary, Winslow, Evans & Crocker Insurance Agency, Inc., a Massachusetts corporation ("WIA"), provides fixed insurance products to its clients, and the Company's wholly-owned subsidiary, Winslow Financial, Inc., a Massachusetts corporation ("WF"), is an SEC Registered Investment Advisor.

The Company's wholly-owned subsidiary, United Advisors, LLC, a New Jersey limited liability company ("UA"), is a New York-based advisor and wealth management firm. United Advisors Services, LLC, a New Jersey limited liability company ("UAS"), is an SEC Registered Investment Advisor, and Financial Services International Corporation, a Washington corporation ("FSIC"), was a FINRA registered broker-dealer. In October 2020, FSIC filed for withdrawal from registration with FINRA and the SEC as a broker-dealer and in December 2020, the withdrawals were completed. In November 2020, UA and UAS were withdrawn from registration with the SEC as investment advisors.

NOTE 3. RECEIVABLES FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS AND OTHER RECEIVABLES

At December 31, 2020 and September 30, 2020, the receivables of $5,198,000 and $3,367,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions associated with the Company's retail brokerage business as well as asset based fee revenues associated with the Company's investment advisory business.

Other receivables at December 31, 2020 and September 30, 2020 consist of the following:

	December 31, 2020	September 30, 2020
Trailing fees	$ 1,566,000	$ 1,391,000
Accounts receivable for tax and accounting services	864,000	1,009,000
Allowance for doubtful accounts - tax and accounting services	(497,000)	(347,000)
Advances to registered representatives	1,651,000	1,834,000
Investment banking receivable	1,183,000	2,383,000
Advisory fees	291,000	771,000
Notes receivable	1,218,000	1,229,000
Other	4,317,000	4,124,000
Total other receivables, net	$ 10,593,000	$ 12,394,000

NOTE 4. 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. Forgiveness of loans amounted to $241,000 and $163,000 for the three months ended December 31, 2020 and 2019, respectively, and the related compensation was included in commissions, compensation and fees in the condensed consolidated statements of operations. In the event the advisor's affiliation with the subsidiary terminates, the advisor is required to repay the unamortized balance of any notes payable.

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 December 31, 2020 and September 30, 2020, no allowance for doubtful accounts was required.

Forgivable loan activity for the three months ended December 31, 2020 is as follows:

Balance, September 30, 2020	$ 4,269,000
Additions	753,000
Amortization	(241,000)
Reclassification to other receivables	(173,000)
Balance, December 31, 2020	$ 4,608,000

NOTE 5. FAIR VALUE OF ASSETS AND LIABILITIES

Authoritative accounting guidance 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 December 31, 2020 and September 30, 2020 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.

	December 31, 2020			
Assets	**Carrying Value**	**Level 1**	**Level 2**	**Total Estimated Fair Value**
Cash	$ 27,965,000	$ 27,965,000	$ —	$ 27,965,000
Cash deposits with clearing organizations	686,000	686,000	—	686,000
Receivables from broker-dealers and clearing organizations	5,198,000	—	5,198,000	5,198,000
Forgivable loans receivable	4,608,000	—	4,608,000	4,608,000
Other receivables, net	10,593,000	—	10,593,000	10,593,000
	$ **49,050,000**	$ **28,651,000**	$ **20,399,000**	$ **49,050,000**
Liabilities				
Accrued commissions and payroll payable	$ 17,993,000	$ —	$ 17,993,000	$ 17,993,000
Accounts payable and accrued expenses	9,374,000	—	9,374,000	9,374,000
	$ **27,367,000**	$ —	$ **27,367,000**	$ **27,367,000**

	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**

The following tables present the financial assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and September 30, 2020:

	December 31, 2020				
Assets	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total Estimated Fair Value**
Securities owned:					
Corporate stocks	$ 216,000	$ 216,000	$ —	$ —	$ 216,000
Municipal bonds	236,000	236,000	—	—	236,000
Restricted stock	696,000	—	696,000	—	696,000
Corporate bonds	323,000		323,000	—	323,000
Warrants	3,181,000	—	2,140,000	1,041,000	3,181,000
	$ 4,652,000	**$ 452,000**	**$ 3,159,000**	**$ 1,041,000**	**$ 4,652,000**
Liabilities					
Contingent consideration	$ 10,702,000	$ —	$ —	$ 10,702,000	$ 10,702,000
	$ 10,702,000	**$ —**	**$ —**	**$ 10,702,000**	**$ 10,702,000**

	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**

Changes in Level 3 assets measured at fair value on a recurring basis for the three months ended December 31, 2020:

	Beginning Balance as of September 30, 2020	**Net realized Gain or (losses)**	**Net Change in Unrealized Appreciation (Depreciation)**	**Purchases**	**Sales**	**Transfer Into Level 3 (a)**	**Transfer Out of Level 3**	**Ending Balance as of December 31, 2020**
Assets								
Warrants	$ 1,075,000	$ —	$ (34,000)	$ —	$ —	$ —	$ —	$ 1,041,000

See changes in Level 3 liabilities (contingent consideration) measured at fair value on a recurring basis for the three months ended December 31, 2020 in Note 7.

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for the Company's financial assets measured at fair value on a recurring basis with a significant Level 3 balance.

Financial Instruments Owned	Fair Value	Valuation Technique	Significant Unobservable Input(s)	Input/Range
Warrants	$ 1,041,000	Market Approach	Discount for lack of marketability	25% - 46%
			Volatility	65% - 123%

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 (gain) loss for the change in fair value of such positions for the three months ended December 31, 2020 and 2019 amounted to approximately $20,000 and $(143,000), respectively, which is included in net dealer inventory gains (losses).

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 the risk-free return rate. A discount is applied for the warrants' lack of marketability. The discount is based on the value of a protective put.

Debt securities are valued based on recently executed transactions.

NOTE 6. FIXED ASSETS

Fixed assets as of December 31, 2020 and September 30, 2020 consist of the following:

	December 31, 2020	September 30, 2020	Estimated Useful Lives (years)
Equipment and software	$ 2,012,000	$ 1,989,000	3 - 7
Furniture and fixtures	911,000	892,000	5
Construction in Process	36,000	21,000	
Leasehold improvements	3,699,000	3,677,000	Lesser of useful life or term of lease
Finance leases (primarily composed of computer equipment)	907,000	907,000	3 - 7
	7,565,000	7,486,000	
Less accumulated depreciation and amortization	(3,355,000)	(3,104,000)	
Fixed assets, net	$ 4,210,000	$ 4,382,000	

Depreciation expense associated with fixed assets for the three months ended December 31, 2020 and 2019 was $251,000 and $242,000, respectively.

NOTE 7. BUSINESS COMBINATION AND CONTINGENT CONSIDERATION

Tax & Accounting Acquisition

In October 2020, National Tax acquired certain assets of a tax preparation and accounting business that per accounting guidance was deemed to be a business combination. The consideration for the transaction consisted of a cash payment at closing totaling $250,000, and a contingent consideration payable in cash having a fair value of $601,000, 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 agreement, during various periods following the closing. The fair value of the acquired assets totaling $851,000 was allocated to customer relationships, which is being amortized over seven years.

The contingent consideration liability recognized in the above acquisition was 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 business is included in the accompanying condensed consolidated statements of operations from the date of acquisition and was not material. In addition, based on materiality, pro forma results are not presented.

Contingent Consideration

Set forth below are changes in the carrying value of the contingent consideration for the three months ended December 31, 2020 related to acquisitions:

Fair value of contingent consideration at September 30, 2020	$	10,401,000
Fair value of contingent consideration in connection with the Tax & Accounting acquisition		601,000
Payments		(276,000)
Change in fair value		(24,000)
Fair value of contingent consideration at December 31, 2020	$	10,702,000

NOTE 8. INTANGIBLE ASSETS

Intangibles consisted of the following at December 31, 2020 and September 30, 2020:

	December 31, 2020						
Intangible asset		Cost		Accumulated Amortization		Carrying Value	Estimated Useful Life (years)
Customer relationships	$	18,318,000	$	6,489,000	$	11,829,000	3-12
Brand name		1,075,000		372,000		703,000	1-5
Software license		45,000		45,000		—	3
Total	$	19,438,000	$	6,906,000	$	12,532,000	

	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	3-12
Brand name		1,075,000		282,000		793,000	1-5
Software license		45,000		41,000		4,000	3
Total	$	18,587,000	$	6,311,000	$	12,276,000	

Amortization expense associated with intangible assets for the three months ended December 31, 2020 and 2019 was $595,000 and $288,000, respectively.

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

Fiscal year ending September 30,		
Nine months ending September 30, 2021	$	1,773,000
2022		2,245,000
2023		1,767,000
2024		1,363,000
2025		1,252,000
Thereafter		4,132,000
Total	$	12,532,000

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of December 31, 2020 and September 30, 2020 consist of the following:

	December 31, 2020	September 30, 2020
Legal	$ 1,446,000	$ 1,068,000
Audit	348,000	318,000
Telecommunications	60,000	74,000
Data services	494,000	467,000
Regulatory	2,358,000	2,176,000
Settlements	1,132,000	920,000
Other	3,536,000	4,633,000
Total	$ 9,374,000	$ 9,656,000

At December 31, 2020, other primarily consists of $105,000 for investment banking deal expense accruals, $1,447,000 for soft dollar accruals, $252,000 for finance obligation of the implementation costs of the general ledger system and $157,000 for tax return preparation fees. 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.

NOTE 10. PER SHARE DATA

Basic net income (loss) per share of common stock attributable to the Company is computed on the basis of the weighted average number of shares of common stock outstanding. Diluted net income (loss) per share is computed on the basis of such weighted average number of shares of common stock 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:

	Three Month Period Ended December 31,	
	2020	2019
Basic weighted-average shares	13,639,622	13,169,025
Effect of dilutive securities:		
Unvested restricted stock units	—	—
Diluted weighted-average shares	13,639,622	13,169,025

At December 31, 2020 and 2019, options, warrants and unvested restricted stock units totaling 8,993,737 and 9,843,370 shares, respectively, were excluded from the computation of diluted net income (loss) per share as their effect would have been anti-dilutive.

NOTE 11. OFF BALANCE SHEET RISK AND CONCENTRATION 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 12. NEW ACCOUNTING GUIDANCE

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which requires entities to use a forward-looking approach based on current expected credit losses ("CECL") to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for the Company beginning October 1, 2023, and early adoption is permitted. The Company is currently assessing the impact that adoption of ASU 2016-13 will have on its financial statements.

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 Company adopted ASU No. 2018-13 as of October 1, 2020. The adoption of this update did not materially impact the Company's consolidated statements and related disclosures.

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.

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. On August 20, 2020, the parties entered into mediation with a private mediator in an attempt to settle the action and, on January 15, 2021, as a result of the mediation, the parties reached an agreement in principle to settle the claims in the action, subject to documentation and execution of a final, confidential settlement agreement between the parties.

The New York Department of Financial Services (the "Department") is conducting an investigation of NSC's compliance with the Department's Cybersecurity Requirements for Financial Services Companies (the "Regulations"). The Regulations establish standards for the cybersecurity programs of entities the Department licenses or otherwise regulates, including NSC. NSC is cooperating with the Department's investigation. Based on preliminary indications from the Department, the Company believes it is probable that the Department will assess a fine against NSC. However, in light of the uncertainties and variables involved, the Company is unable to estimate either the timing or the amount of the loss associated with this matter. There can be no assurance that this matter will not have a material adverse effect on NSC or the Company.

Winslow, Evans & Crocker, Inc. ("WEC") reached a settlement with the SEC over a mutual fund share class initiative. The settlement was reached in February 2021. The stock purchase agreement for the sale of WEC to the Company provides for the sellers to indemnify the Company for payments due related to this matter.

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 December 31, 2020 and September 30, 2020, the Company accrued approximately $1,132,000 and $920,000, respectively in liabilities for contingent litigation and regulatory matters. These amounts are included in accounts payable and accrued expenses in the condensed consolidated statements of financial condition. Amounts charged to operations for settlements and potential losses during the three months ended December 31, 2020 and 2019, were $407,000 and $388,000, respectively. These amounts are included in other administrative expenses in the condensed consolidated statements of operations. The Company has included in professional fees, litigation and arbitration related expenses of $1,432,000 and $441,000 for the three months ended December 31, 2020 and 2019, respectively.

See the additional update in Note 24.

Other Commitments

As of December 31, 2020, the Company and its subsidiaries had one outstanding letter of credit, which has been issued in the maximum amount of $962,000 as security for a property lease, and which is collateralized by the restricted cash as reflected in the condensed consolidated statements of financial condition.

NOTE 14. NET CAPITAL REQUIREMENTS

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 December 31, 2020, NSC had net capital of $3,875,125 which was $2,875,125 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 December 31, 2020, WEC had net capital of $777,629 which was $618,479 in excess of its required minimum net capital of $159,150. WEC's ratio of aggregate indebtedness to net capital was 3.1 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.

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

NOTE 15. STOCKHOLDERS' EQUITY

Stock Options

Information with respect to stock option activity during the three months ended December 31, 2020 follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual term (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2020	269,200	$ 5.22	$ 2.19	$ 2.83	$ —
Forfeited	—	$ —	$ —		$ —
Outstanding at December 31, 2020	269,200	$ 5.22	$ 2.19	$ 2.57	$ —
Vested and exercisable at December 31, 2020	269,200	$ 5.22	$ 2.19	$ 2.57	$ —

All compensation expense associated with the grants of stock options was recognized in prior years.

Warrants

The following table summarizes information about warrant activity during the three months ended December 31, 2020:

	Warrants	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Outstanding at September 30, 2020	5,398,907	$ 3.25	1.30
Forfeited	—	$ —	
Outstanding and exercisable at December 31, 2020	5,398,907	$ 3.25	1.05

Restricted Stock Units and Awards

A summary of the Company's non-vested restricted stock units ("RSUs") and restricted stock awards ("RSAs") for the three months ended December 31, 2020 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested restricted stock units and awards at September 30, 2020	3,498,315	$ 9,695,000
Vested	(172,685)	(561,000)
Non-vested restricted stock units and awards at December 31, 2020	3,325,630	$ 9,134,000

One RSU or RSA gives the right to one share of the Company's common stock. RSUs 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 RSUs 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 three months ended December 31, 2020, the Company recognized compensation expense of $781,000 related to RSUs and RSAs. For the three months ended December 31, 2019, the Company recognized compensation expense of $907,000 related to RSUs and RSAs. At December 31, 2020, unrecognized compensation with respect to RSUs and RSAs amounted to $3,324,000, which will be recognized over a weighted average period of 2.5 years, assuming all performance-based compensation will vest.

NOTE 16. 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 for the three-month period ended December 31, 2020 and 2019 are based on the estimated annual effective tax rate. Each quarter the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as necessary.

The effective tax rate for the three-month period ended December 31, 2020 differs from the federal statutory income tax rate principally due to non-deductible expenses and state and local income taxes.

At December 31, 2020, the Company's net deferred tax asset is principally comprised of net operating loss carryforwards. Management believes that is more likely than not that its deferred tax assets will be realized and, accordingly, has not provided a valuation allowance against such amount.

NOTE 17. SEGMENT INFORMATION

The Company has two reportable segments. 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, 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.

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

Segment information for the three months ended December 31, 2020 and 2019 is as follows:

	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Three Months Ended December 31,				
2020				
Revenues	$ 66,419,000	$ 1,412,000	$ 1,000	$ 67,832,000
Pre-tax income (loss)	1,363,000	(1,019,000)	(1,631,000) (a)	(1,287,000)
Assets	85,169,000	7,596,000	15,832,000 (b)	108,597,000
Depreciation and amortization	442,000	232,000	172,000	846,000
Interest	20,000	—	—	20,000
Capital expenditures	54,000	25,000	—	79,000
2019				
Revenues	$ 50,259,000	$ 931,000	$ 1,000	$ 51,191,000
Pre-tax income (loss)	473,000	(1,106,000)	(1,591,000) (a)	(2,224,000)
Assets	74,107,000	3,305,000	19,089,000 (b)	96,501,000
Depreciation and amortization	253,000	132,000	145,000	530,000
Interest	14,000	—	—	14,000
Capital expenditures	21,000	—	100,000	121,000

(a) Consists of professional fees, depreciation expense 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 18. 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 "Standstill Agreement"), pursuant to which B. Riley agreed to certain customary standstill provisions, effective as of the date of the Standstill Agreement through December 31, 2021. See the additional update in Note 24.

B. Riley Proposal

On April 30, 2020, B. Riley and the Company entered into a waiver of certain provisions of the Standstill 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. See the additional update in Note 24.

NOTE 19. 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 advisor to the Funds, believes possess innovative or disruptive technologies and present opportunities for an initial public offering ("IPO") or other 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 other 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 distribution. 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 for the three months ended December 31, 2020 and 2019 were $5,174,000 and $8,409,000, respectively, and are included in investment banking in the condensed consolidated statements of operations.

Unrecognized Carried Interest

Based on the investment performance of the Funds as of December 31, 2020, unrecognized carried interest under a hypothetical distribution was $41,260,000 and the related compensation expense associated was $28,586,000. Carried interest is dependent on the market and will fluctuate until a distribution event occurs.

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 three months ended December 31, 2020 and 2019:

For the Three Months Ended December 31, 2020	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Revenues from customer contracts:				
Commissions and transaction fees and clearing services	$ 36,122,000	$ —	$ —	$ 36,122,000
Investment banking	15,242,000	—	—	15,242,000
Investment advisory	12,730,000	—	—	12,730,000
Tax preparation and accounting	—	1,412,000	—	1,412,000
Sub-total revenue from contracts with customers	64,094,000	1,412,000	—	65,506,000
Other revenue	2,325,000	—	1,000	2,326,000
Total revenue	$ 66,419,000	$ 1,412,000	$ 1,000	$ 67,832,000

For the Three Months Ended December 31, 2019	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Revenues from customer contracts:				
Commissions and transaction fees and clearing services	$ 24,942,000	$ —	$ —	$ 24,942,000
Investment banking	15,227,000	—	—	15,227,000
Investment advisory	7,389,000	—	—	7,389,000
Tax preparation and accounting	—	931,000	—	931,000
Sub-total revenue from contracts with customers	47,558,000	931,000	—	48,489,000
Other revenue	2,701,000	—	1,000	2,702,000
Total revenue	$ 50,259,000	$ 931,000	$ 1,000	$ 51,191,000

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 December 31, 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 December 31, 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 condensed consolidated statements of financial condition. The Company’s current lease arrangements expire from 2021 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 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 condensed consolidated statements of financial condition. The Company recognizes lease expense for these leases on a straight-line basis over the term of the lease.

The components of lease expense were as follows:

	For the Three Months Ended	
	December 31, 2020	**December 31, 2019**
Operating lease cost:	$ 1,412,000	$ 1,102,000
Finance lease cost:		
Amortization of finance lease assets	$ 19,000	$ 19,000
Interest on finance lease liabilities	—	4,000
Total finance lease cost	$ 19,000	$ 23,000
Sublease income:	$ 138,000	$ —

The table below summarizes the Company’s scheduled future minimum lease payments under operating leases, recorded on the condensed consolidated statements of financial condition as of December 31, 2020:

Fiscal Year Ending September 30,	**Operating Leases**
Nine months ending September 30, 2021	$ 3,255,000
2022	2,763,000
2023	2,588,000
2024	2,400,000
2025	2,258,000
Thereafter	6,071,000
Total minimum lease payments	19,335,000
Less: Amounts representing interest not yet incurred	3,471,000
Present value of lease obligations	$ 15,864,000

As of December 31, 2020, the Company has an additional operating lease, primarily for additional office space in Red Bank, New Jersey, that has not yet commenced.

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

Leases	Classification	December 31, 2020	September 30, 2020
Assets			
Operating lease assets	Right-of-use assets	$ 13,868,000	$ 14,721,000
Finance lease assets	Fixed assets	317,000	336,000
Total lease assets		**$ 14,185,000**	**$ 15,057,000**
Liabilities			
Operating lease liabilities	Operating lease liabilities	$ 15,864,000	$ 16,719,000
Finance lease liabilities	Other liabilities	—	51,000
Total lease liabilities		**$ 15,864,000**	**$ 16,770,000**

The table below presents additional information related to the Company's leases as of December 31, 2020:

	For the Three Months Ended	
	December 31, 2020	December 31, 2019
Cash paid for amounts related to lease liabilities		
Operating cash flows from finance leases (interest)	$ —	$ 4,000
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 flow)	$ 1,197,000	$ 709,000
Financing cash flows from finance leases (principal payments)	$ 51,000	$ 58,000
Operating lease assets obtained in exchange for lease liabilities	$ 98,000	$ —
Weighted Average Remaining Lease Term:		
Operating Leases (in years)	7.22	7.35
Weighted Average Discount Rate:		
Operating Leases	5.50%	5.50%

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.

The Company has applied for forgiveness of the loans, but no assurance can be given that the Company will be granted forgiveness of the loans.

NOTE 23. RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2020, investment banking revenues include approximately $620,000 of fees related to placement of securities for B. Riley and subsidiaries of B. Riley.

Michael E. Singer, Executive Vice Chairman of the Board of the Company and Chief Strategy Officer, is the managing member and sole equity owner of Alternative Insight LLC ("Alternative Insight"). Alternative Insight is the general partner of Insight Wellness Fund, LLC (the "Wellness Fund") and Insight Dharma, LLC (the "Dharma Fund" and, together with the Wellness Fund, the "Funds"). The Company performs certain solicitation and placement agent services on behalf of the Funds. During the three months ended December 31, 2020, the Funds collectively paid total placement fees to the Company of $232,000.

NOTE 24. SUBSEQUENT EVENT

On January 10, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with B. Riley, and B. Riley Principal Merger Corp. III, a Delaware corporation and wholly-owned subsidiary of B. Riley ("Merger Sub"). The Merger Agreement provides for the acquisition of the Company by B. Riley through a cash tender offer (the "Offer") by Merger Sub for all of the Company's outstanding shares of common stock ("Common Stock"), other than the shares of Common Stock owned by B. Riley and its subsidiaries, for $3.25 per share of Common Stock (the "Offer Price") in cash, without interest, less any applicable withholding taxes. Following the consummation of the Offer, subject to the absence of injunctions or other legal restraints preventing the consummation of the Merger and the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of B. Riley (the "Merger"), pursuant to the procedure provided for under Section 251(h) of the Delaware General Corporation Law (the "DGCL"), without any additional stockholder approvals. The Merger will be effected as soon as practicable following the time of purchase by Merger Sub of shares of Common Stock validly tendered and not withdrawn in the Offer. B. Riley and its subsidiaries currently own approximately 45% of the issued and outstanding shares of the Company's Common Stock.

The board of directors of the Company (the "Board") delegated to a special committee (the "Special Committee") the responsibility and authority to review, evaluate, negotiate and recommend or not recommend to the Board a potential strategic transaction involving the Company. The Special Committee recommended to the Board the approval, execution, delivery and performance by the Company of the Merger Agreement. The Board, acting on the recommendation of the Special Committee, approved the execution, delivery and performance by the Company of the Merger Agreement, approved the acquisition of the Company by B. Riley on the terms and subject to the conditions set forth in the Merger Agreement and resolved to recommend that the stockholders of the Company (other than B. Riley and its subsidiaries) tender their shares of Common Stock to Merger Sub pursuant to the Offer. Under the Merger Agreement, Merger Sub is required to commence the Offer as promptly as reasonably practicable. The Offer commenced on January 27, 2021 and will initially expire at one minute following 11:59 P.M. (12:00 midnight), New York City time, on the twentieth (20th) business day following (and including the date of) the commencement of the Offer. The Offer may be extended subject to and in accordance with the terms set forth in the Merger Agreement.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), (i) each share of Common Stock not tendered pursuant to the Offer (other than any shares of Common Stock (a) owned by the Company or any direct or indirect wholly-owned subsidiary of the Company immediately prior to the Effective Time, (b) owned by B. Riley, Merger Sub or any other direct or indirect wholly-owned subsidiary of B. Riley immediately prior to the Effective Time or (c) held by stockholders who have properly exercised and perfected their demands for appraisal of such shares of Common Stock in accordance with the DGCL and have neither withdrawn nor lost such rights prior to the Effective Time) will each be cancelled and converted into the right to receive the Offer Price, (ii) each outstanding time-based restricted stock unit, whether vested or unvested, with respect to shares of Common Stock (each, a "Company RSU") and each outstanding performance-based restricted stock unit, whether vested or unvested, with respect to shares of Common Stock (each, a "Company PSU") shall be converted into the right to receive an amount of cash equal to the full number of shares of Common Stock underlying such Company RSU or Company PSU multiplied by the Offer Price, and (iii) each outstanding stock option, whether vested or unvested, with respect to shares of Common Stock (each, a "Company Option") shall be converted into the right to receive an amount of cash equal to the number of shares of Common Stock underlying such Company Option multiplied by the excess, if any, of the Offer Price over the Company Option's exercise price. For the avoidance of doubt, any Company Option with an exercise price greater than or equal to the Offer Price shall be cancelled for no consideration.

Concurrently with the execution of the Merger Agreement, B. Riley and the Company entered into an agreement (the "Termination Agreement") pursuant to which (i) the Company waived the standstill obligations of B. Riley pursuant to the Standstill Agreement and (ii) the Standstill Agreement will terminate, effective upon the consummation of the Merger.

Two lawsuits have been filed relating to the Offer and the Merger in federal courts by purported individual shareholders against the Company, certain of its directors and, in one case, B. Riley and Merger Sub. The cases are, in the order by which they were filed: *Raul v. National Holdings Corporation et al.*, 1:21-cv-01103 (S.D.N.Y. Feb. 8, 2021); and *Johnson v. National Holdings Corporation et al.*, 1:21-cv-00176-UNA (D. Del. Feb. 9, 2021). The complaints generally allege that the Schedule 14D-9 misrepresented and/or omitted certain purportedly material information and assert violations of Sections 14(e), 14(d) and 20(a) of the Securities Exchange Act of 1934, rules thereunder or common law fraud and/or negligent misrepresentation or concealment. The alleged material misstatements and omissions relate to, among other topics, the Company's forecasts, the financial analysis of the Company's financial advisor, the interests of directors and officers in the Offer and the Merger and events giving rise to the Offer and the Merger. The plaintiffs in each of the foregoing actions seek, among other things, an injunction against the consummation of the Offer and the Merger or, in the alternative, rescission damages, as well as an award of costs and expenses (including attorneys' and experts' fees). The Company disputes the allegations made in both lawsuit complaints.

ITEM 2. 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 under the section titled "Risks Factors" of our Form 10-K for the year ended September 30, 2020. Any forward-looking statements contained in this Quarterly Report on Form 10-Q 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, except as required by law.

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, FINRA and is a member of the 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 Internal Revenue Service.

As of December 31, 2020, we had approximately 997 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 107 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.

Agreement and Plan of Merger

On January 10, 2021, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with B. Riley, and B. Riley Principal Merger Corp. III, a Delaware corporation and wholly-owned subsidiary of B. Riley ("Merger Sub"). The Merger Agreement provides for the acquisition of the Company by B. Riley through a cash tender offer (the "Offer") by Merger Sub for all of our outstanding shares of common stock ("Common Stock"), other than the shares of Common Stock owned by B. Riley and its subsidiaries, for $3.25 per share of Common Stock (the "Offer Price") in cash, without interest, less any applicable withholding taxes. Following the consummation of the Offer, subject to the absence of injunctions or other legal restraints preventing the consummation of the Merger and the satisfaction or waiver the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of B. Riley (the "Merger"), pursuant to the procedure provided for under Section 251(h) of the Delaware General Corporation Law (the "DGCL"), without any additional stockholder approvals. The Merger will be effected as soon as practicable following the time of purchase by Merger Sub of shares of Common Stock validly tendered and not withdrawn in the Offer. B. Riley and its subsidiaries currently own approximately 45% of the issued and outstanding shares of our Common Stock.

Our board of directors (the "Board") delegated to a special committee (the "Special Committee") the responsibility and authority to review, evaluate, negotiate and recommend or not recommend to the Board a potential strategic transaction involving the Company. The Special Committee recommended to the Board the approval, execution, delivery and performance by the Company of the Merger Agreement. The Board, acting on the recommendation of the Special Committee, approved the execution, delivery and performance by the Company of the Merger Agreement, approved the acquisition of the Company by B. Riley on the terms and subject to the conditions set forth in the Merger Agreement and resolved to recommend that our stockholders (other than B. Riley and its subsidiaries) tender their shares of Common Stock to Merger Sub pursuant to the Offer. Under the Merger Agreement, Merger Sub is required to commence the Offer as promptly as reasonably practicable. The Offer commenced on January 27, 2021 and will initially expire at one minute following 11:59 P.M. (12:00 midnight), New York City time, on the twentieth (20th) business day following (and including the date of) the commencement of the Offer. The Offer may be extended subject to and in accordance with the terms set forth in the Merger Agreement.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), (i) each share of Common Stock not tendered pursuant to the Offer (other than any shares of Common Stock (a) owned by us or any of our direct or indirect wholly-owned subsidiary immediately prior to the Effective Time, (b) owned by B. Riley, Merger Sub or any other direct or indirect wholly-owned subsidiary of B. Riley immediately prior to the Effective Time or (c) held by stockholders who have properly exercised and perfected their demands for appraisal of such shares of Common Stock in accordance with the DGCL and have neither withdrawn nor lost such rights prior to the Effective Time) will each be cancelled and converted into the right to receive the Offer Price, (ii) each outstanding time-based restricted stock unit, whether vested or unvested, with respect to shares of Common Stock (each, a "Company RSU") and each outstanding performance-based restricted stock unit, whether vested or unvested, with respect to shares of Common Stock (each, a "Company PSU") shall be converted into the right to receive an amount of cash equal to the full number of shares of Common Stock underlying such Company RSU or Company PSU multiplied by the Offer Price, and (iii) each outstanding stock option, whether vested or unvested, with respect to shares of Common Stock (each, a "Company Option") shall be converted into the right to receive an amount of cash equal to the number of shares of Common Stock underlying such Company Option multiplied by the excess, if any, of the Offer Price over the Company Option's exercise price. For the avoidance of doubt, any Company Option with an exercise price greater than or equal to the Offer Price shall be cancelled for no consideration.

Concurrently with the execution of the Merger Agreement, we entered into an agreement with B. Riley (the "Termination Agreement") pursuant to which (i) we waived the standstill obligations of B. Riley pursuant to that certain Agreement, dated November 14, 2018, between the Company and B. Riley (the "Standstill Agreement") and (ii) the Standstill Agreement will terminate effective upon the consummation of the Merger.

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.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2020 Compared to Three Months Ended December 31, 2019

Summary

Our first quarter ended December 31, 2020 resulted in a 33% increase in revenues and a 29% increase in operating expenses as compared to the comparative period last year. Lower margin commission and investment advisory revenue growth outpaced 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 overall increase in operating expenses. Additionally, the Winslow and United Advisors acquisitions completed in fiscal year 2020 contributed to the increase in revenues.

Revenues

Total revenues increased $16,641,000, or 33%, to $67,832,000, in the current quarter as compared to $51,191,000 recorded in the comparative period last year.

	Three Months Ended December 31,		Increase (Decrease)	
	2020	2019	Amount	Percent
Commissions	$ 33,613,000	$ 23,167,000	$ 10,446,000	45%
Net dealer inventory gains (losses)	1,330,000	1,192,000	138,000	12%
Investment banking	15,242,000	15,227,000	15,000	0%
Investment advisory	12,730,000	7,389,000	5,341,000	72%
Interest and dividends	885,000	1,394,000	(509,000)	(37)%
Transaction fees and clearing services	2,509,000	1,775,000	734,000	41%
Tax preparation and accounting	1,412,000	931,000	481,000	52%
Other	111,000	116,000	(5,000)	(4)%
Total Revenues	**$ 67,832,000**	**$ 51,191,000**	**$ 16,641,000**	**33%**

Commissions increased $10,446,000, or 45%, to $33,613,000 in the current quarter as compared to $23,167,000 recorded in the comparatively period last year. This increase is mainly attributable to an increase in trading commission revenue and $1,191,000 in incremental revenue due to the Winslow and United Advisors acquisitions. 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 $138,000, or 12%, to $1,330,000 in the current quarter as compared to $1,192,000 recorded in the comparative period last year.

Investment banking fees increased $15,000, or 0%, to $15,242,000 in the current quarter as compared to $15,227,000 recorded in the comparative period last year.

Investment advisory fees increased $5,341,000, or 72%, to $12,730,000 in the current quarter as compared to $7,389,000 recorded in the comparative period last year. This increase is primarily due to the incremental revenue as a result of the Winslow and United Advisors acquisitions 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.

Interest and dividend income decreased $509,000, or 37%, to $885,000 in the current quarter as compared to $1,394,000 recorded in the comparative period last year. This decrease is attributable to the drop in the Federal funds rate, as interest rates overall are near zero.

Transaction fees and clearing services increased $734,000, or 41%, to $2,509,000 in the current quarter as compared to $1,775,000 recorded in the comparative period last year. This increase is primarily attributable to an increase in customer trading volumes as noted above.

Tax preparation and accounting fees increased $481,000, or 52%, to $1,412,000 in the current quarter as compared to $931,000 recorded in the comparative period last year. This increase is attributable to revenue generated by new business acquisitions.

Other revenue decreased $5,000, or 4%, to $111,000 in the current quarter as compared to $116,000 recorded in the comparative period last year.

Operating Expenses

Total operating expenses increased $15,597,000, or 29% to $69,128,000 in the current quarter as compared to $53,531,000 recorded in the comparative period last year.

	Three Months Ended December 31,		Increase (Decrease)	
	2020	2019	Amount	Percent
Commissions, compensation and fees	$ 56,735,000	$ 44,121,000	$ 12,614,000	29%
Clearing fees	2,564,000	1,502,000	1,062,000	71%
Communications	984,000	674,000	310,000	46%
Occupancy	1,302,000	1,168,000	134,000	11%
License and registration	863,000	1,024,000	(161,000)	(16)%
Professional fees	3,145,000	2,194,000	951,000	43%
Interest	20,000	14,000	6,000	43%
Depreciation and amortization	846,000	530,000	316,000	60%
Other administrative expenses	2,669,000	2,304,000	365,000	16%
Total Operating Expenses	$ **69,128,000**	$ **53,531,000**	$ **15,597,000**	**29%**

Commissions, compensation, and fees increased $12,614,000, or 29%, to $56,735,000 in the current quarter as compared to $44,121,000 recorded in the comparative period last year. Commissions, compensation, and fees include expenses based on commission revenue earned, investment banking and investment advisory revenues, as well as compensation to our non-broker employees. This increase is primarily related to higher commissions revenue and therefore higher variable compensation expense. Commissions is our lowest margin business. Additionally, $3,764,000 in incremental expense is due to the Winslow and United Advisors acquisitions.

Clearing fees increased $1,062,000, or 71%, to $2,564,000 in the current quarter as compared to $1,502,000 recorded in the comparative period last year. This increase is primarily due to higher clearing fees as a result of the increase in trading volume and the incremental expense as a result of the Winslow and United Advisors acquisitions.

Communications expenses increased $310,000, or 46%, to $984,000 in the current quarter as compared to $674,000 recorded in the comparative period last year. This increase is primarily due to the incremental expense as a result of the Winslow and United Advisors acquisitions.

Occupancy expenses increased $134,000, or 11%, to $1,302,000 in the current quarter as compared to $1,168,000 recorded in the comparative period last year. This increase is primarily due to the incremental expense as a result of the Winslow and United Advisors acquisitions offset in part by the sublease income recorded in the current quarter.

License and registration expense decreased by $161,000, or 16%, to $863,000 in the current quarter as compared to $1,024,000 recorded in the comparative period last year. This decrease is primarily due to cost saving measures implemented during the past year.

Professional fees increased by $951,000, or 43% to $3,145,000 in the current quarter as compared to $2,194,000 recorded in the comparative period last year. This increase is primarily related to legal and consulting fees related to the B. Riley proposal.

Interest expense increased by $6,000, to $20,000 in the current quarter as compared to $14,000 recorded in the comparative period last year.

Depreciation and amortization expenses increased $316,000, or 60% to $846,000 in the current quarter as compared to $530,000 recorded in the comparative period last year due to higher amortization expense for new customer list intangibles as a result of new business acquisitions.

Other administrative expenses increased $365,000, or 16%, to $2,669,000 in the current quarter as compared to $2,304,000 recorded in the comparative period last year. This increase is primarily due to higher insurance costs.

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-related 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.

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

	Three Months Ended December 31,	
	2020	2019
Net income (loss) attributable to common shareholders, as reported	$ (859,000)	$ (1,593,000)
Interest expense	20,000	14,000
Income taxes	(428,000)	(725,000)
Depreciation	251,000	242,000
Amortization	595,000	288,000
EBITDA	(421,000)	(1,774,000)
Non-cash compensation expense	781,000	907,000
Forgivable loan amortization	241,000	163,000
Professional fees associated with the B. Riley proposal	653,000	—
Unrealized loss (gain) on the firm's warrant portfolio	20,000	(143,000)
EBITDA, as adjusted	$ 1,274,000	$ (847,000)

EBITDA, adjusted for non-cash compensation expense, forgivable loan amortization, professional fees associated with the B. Riley proposal and unrealized loss (gain) on the firm’s warrant portfolio, is a key metric we use in evaluating our business. EBITDA and EBITDA, as adjusted, are considered non-GAAP financial measure as defined by Regulation G, promulgated by the SEC.

Liquidity and Capital Resources

	Ending balance at December 31, 2020	Ending balance at December 31, 2019	Average balance during first three months of fiscal year ending September 30, 2021	Average balance during first three months of fiscal year ending September 30, 2020
Cash	$ 27,965,000	$ 21,820,000	$ 27,646,000	$ 26,132,000
Receivables from broker-dealers and clearing organizations	5,198,000	1,990,000	4,283,000	2,740,000
Securities owned (excludes warrants)	1,471,000	5,128,000	1,454,000	3,441,000
Accrued commissions and payroll payable, accounts payable and accrued expenses	27,367,000	20,095,000	26,234,000	23,664,000

At December 31, 2020 and 2019 respectively, 32% and 30% of our total assets consisted of cash, securities owned and receivables from clearing brokers and other broker-dealers. 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.

NSC is subject to the Net Capital Rule, which, among other things, requires the maintenance of minimum net capital. At December 31, 2020, NSC had net capital of $3,875,125 which was $2,875,125 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 December 31, 2020, WEC had net capital of $777,629 which was $618,479 in excess of its required minimum net capital of $159,150. WEC's ratio of aggregate indebtedness to net capital was 3.1 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.

Advances, dividend payments and other equity withdrawals from NSC and WEC are restricted by the regulations of the SEC, and other regulatory agencies. These regulatory restrictions may limit the amounts that NSC and WEC may dividend or advance to us. During the first three months of fiscal 2021 and 2020, NSC and WEC were in compliance with the rules governing dividend payments and other equity withdrawals.

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 routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures amounted to $79,000 and $121,000 during the first three months of fiscal 2021 and 2020, 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 condensed consolidated financial statements for additional information.

Cash Flows - Operating Activities

Net cash provided by (used in) operating activities was $1,422,000 and $(6,326,000) for the three months ended December 31, 2020 and 2019, respectively.

During the three months ended December 31, 2020, net cash provided by operating activities was primarily attributable to:

- $(859,000) of net loss, which included $2,497,000 in non-cash items, consisting primarily of (i) $781,000 of stock-based compensation expense, (ii) $846,000 of depreciation and amortization expense, and (iii) $951,000 of amortization of right-of-use assets; and
- Changes in operating assets and liabilities consisting primarily of (i) a $1,831,000 increase in receivables from broker-dealers and clearing organizations (ii) a $753,000 increase in forgivable loans receivable, and (iii) a $474,000 increase in prepaid expenses. These items were partially offset by (i) a $1,287,000 increase in accounts payable, accrued expenses and other liabilities, and (ii) a $1,807,000 decrease in other receivables.

During the three months ended December 31, 2019, net cash provided by operating activities was primarily attributable to:

- $(1,499,000) of net loss, which included $2,496,000 in non-cash items, consisting primarily of (i) $907,000 of stock-based compensation expense, (ii) $530,000 of depreciation and amortization expense, and (iii) $700,000 of amortization of operating lease assets; and
- Changes in operating assets and liabilities consisting primarily of (i) a $7,434,000 decrease in accounts payable, accrued expenses and other liabilities, (ii) a $1,223,000 increase in other receivables, (iii) a $1,393,000 increase in forgivable loans receivable, and (iv) a $1,301,000 increase in prepaid expenses. These items were partially offset by (i) a $2,680,000 decrease in securities owned and (ii) a $1,549,000 decrease in receivables from broker dealers and clearing organizations.

Cash Flow - Investing Activities

Net cash used in investing activities was $312,000 and $1,878,000 for the three months ended December 31, 2020 and 2019, respectively. Net cash used in investing activities during the three months ended December 31, 2020 and 2019 was primarily attributable to the acquisition of businesses.

Cash Flow - Financing Activities

Net cash used in financing activities was $472,000 and $417,000 for the three months ended December 31, 2020 and 2019, respectively. Net cash used in financing activities for the three months ended December 31, 2020, was primarily attributable to (i) $85,000 for repurchase of common stock for tax withholding, (ii) $276,000 of contingent considerations payments, and (iii) $60,000 for principal payments under finance obligations. Net cash used in financing activities for the three months ended December 31, 2019, was primarily attributable to (i) $139,000 for repurchase of common stock for tax withholding, (ii) $112,000 of contingent considerations payments, and (iii) $108,000 for principal payments under finance obligations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

INFLATION

We believe inflation has not had a material effect on our financial condition as of December 31, 2020, and September 30, 2020, or on our results of operations and cash flows for the three months ended December 31, 2020 and 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation 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 our evaluation of 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 at the reasonable assurance level.

Changes in internal controls.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are defendants or respondents in the normal course of business 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 we 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. 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. On August 20, 2020, the parties entered into mediation with a private mediator in an attempt to settle the action and, on January 15, 2021, as a result of the mediation, the parties reached an agreement in principle to settle the claims in the action, subject to documentation and execution of a final, confidential settlement agreement between the parties.

Two lawsuits have been filed relating to the Offer and the Merger in federal courts by purported individual shareholders against the Company, certain of its directors and, in one case, B. Riley and Merger Sub. The cases are, in the order by which they were filed: *Raul v. National Holdings Corporation et al.*, 1:21-cv-01103 (S.D.N.Y. Feb. 8, 2021); and *Johnson v. National Holdings Corporation et al.*, 1:21-cv-00176-UNA (D. Del. Feb. 9, 2021). The complaints generally allege that the Schedule 14D-9 misrepresented and/or omitted certain purportedly material information and assert violations of Sections 14(e), 14(d) and 20(a) of the Securities Exchange Act of 1934, rules thereunder or common law fraud and/or negligent misrepresentation or concealment. The alleged material misstatements and omissions relate to, among other topics, the Company's forecasts, the financial analysis of the Company's financial advisor, the interests of directors and officers in the Offer and the Merger and events giving rise to the Offer and the Merger. The plaintiffs in each of the foregoing actions seek, among other things, an injunction against the consummation of the Offer and the Merger or, in the alternative, rescission damages, as well as an award of costs and expenses (including attorneys' and experts' fees). The Company disputes the allegations made in both lawsuit complaints.

The New York Department of Financial Services (the "Department") is conducting an investigation of National Securities Corporation's compliance with the Department's Cybersecurity Requirements for Financial Services Companies (the "Regulations"). The Regulations establish standards for the cybersecurity programs of entities the Department licenses or otherwise regulates, including National Securities. National Securities is cooperating with the Department's investigation. Based on preliminary indications from the Department, the Company believes it is probable that the Department will assess a fine against National Securities. However, in light of the uncertainties and variables involved, the Company is unable to estimate either the timing or the amount of the loss associated with this matter. There can be no assurance that this matter will not have a material adverse effect on National Securities or the Company.

Winslow, Evans & Crocker, Inc. ("WEC") reached a settlement with the SEC over a mutual fund share class initiative. The settlement was reached in February 2021. The stock purchase agreement for the sale of WEC to the Company provides for the sellers to indemnify the Company for payments due related to this matter.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, other than the following:

The announcement and pendency of the transactions contemplated by the Merger Agreement may adversely affect our business, financial condition and results of operations.

Uncertainty about the effect of the transactions contemplated by the Merger Agreement on our clients, registered representatives, investment advisors, employees and other parties may have an adverse effect on our business, financial condition and results of operation regardless of whether the proposed transactions are completed. These risks to our business include the following, all of which could be exacerbated by a delay in the completion of the proposed transactions:

- the impairment of our ability to attract, retain, and motivate our employees, including key personnel;
- the diversion of significant management time and resources towards the completion of the proposed transaction;
- difficulties maintaining relationships with clients, registered representatives, investment advisors, vendors and other business partners;
- delays or deferments of certain business decisions by our clients, registered representatives, investment advisors, vendors and other business partners;
- the inability to pursue alternative business opportunities or make appropriate changes to our business because the transaction agreement requires us to conduct our business in the ordinary course of business consistent with past practice and not engage in certain kinds of transactions prior to the completion of the proposed transaction;
- litigation relating to the proposed transaction and the costs related thereto; and
- the incurrence of significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed transaction.

Failure to consummate the proposed transaction within the expected timeframe or at all could have a material adverse impact on our business, financial condition and results of operations.

There can be no assurance that the proposed Merger will be consummated. The consummation of the proposed Merger is subject to the satisfaction or waiver of specified closing conditions, including the prior consummation of the Offer, which is conditioned upon (i) there being validly tendered and not validly withdrawn that number of shares of common stock representing at least a majority of our shares of common stock outstanding at the expiration time of the Offer (other than shares held by B. Riley, any subsidiary, director or executive officer of B. Riley, or certain executive officers of the Company) and (ii) other customary closing conditions. There can be no assurance that these and other conditions to closing will be satisfied in a timely manner or at all.

The Merger Agreement also provides that the Merger Agreement may be terminated by us or B. Riley under certain circumstances, and in certain specified circumstances upon termination of the Merger Agreement we will be required to pay B. Riley a termination fee. If we are required to make this payment, doing so would materially adversely affect our business, financial condition and results of operations.

A failed transaction may result in negative publicity and a negative impression of us among our clients, registered representatives, investment advisors or in the investment community or business community generally. Further, any disruptions to our business resulting from the announcement and pendency of the proposed Merger, including any adverse changes in our relationships with our clients, registered representatives, investment advisors, vendors and employees, could continue or accelerate in the event of a failed transaction.

In addition, if the proposed Merger is not completed, and there are no other parties willing and able to acquire our Company at a price of $3.25 per share or higher, on terms acceptable to us, the share price of our common stock will likely decline to the extent that the current market price of our common stock reflects an assumption that the proposed Merger will be completed.

Also, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Merger, for which we will have received little or no benefit if the proposed Merger is not completed. Many of these fees and costs will be payable by us even if the proposed Merger is not completed and may relate to activities that we would not have undertaken other than to complete the proposed Merger.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Principal Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL HOLDINGS CORPORATION

February 16, 2021	By:	/s/ Michael A. Mullen
		Michael A. Mullen Chief Executive Officer (Principal Executive Officer)
February 16, 2021	By:	/s/ Glenn C. Worman
		Glenn C. Worman Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

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

I, Michael A. Mullen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of National Holdings Corporation for the fiscal quarter ended December 31, 2020;

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;

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)
February 16, 2021

Exhibit 31.2

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

I, Glenn C. Worman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of National Holdings Corporation for the fiscal quarter ended December 31, 2020;

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;

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)
February 16, 2021

Exhibit 32.1

CERTIFICATION 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 Quarterly Report of National Holdings Corporation (the "Company") on Form 10-Q for the fiscal quarter ended December 31, 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)
February 16, 2021

Exhibit 32.2

CERTIFICATION 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 Quarterly Report of National Holdings Corporation (the “Company”) on Form 10-Q for the fiscal quarter ended December 31, 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)
February 16, 2021