

NATIONAL HOLDINGS CORP  
Form S-1/A  
January 11, 2017

As filed with the Securities and Exchange Commission on January 11, 2017

File No. 214791

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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AMENDMENT NO. 3 TO

Form S-1

REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

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NATIONAL HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

|  |                                     |                       |
|--|-------------------------------------|-----------------------|
| <b>Delaware</b>                        | <b>6200</b>                         | <b>36-4128138</b>     |
| <b>(State or other jurisdiction of</b> | <b>(Primary Standard Industrial</b> | <b>(I.R.S.</b>        |
| <b>incorporation or organization)</b>  | <b>Classification Code Number)</b>  | <b>Employer</b>       |
|  |                                     | <b>Identification</b> |
|  |                                     | <b>No.)</b>           |

**410 Park Avenue, 14<sup>th</sup> Floor**

**New York, NY 10022**

**(212) 417-8000**

**(Address, including zip code, and telephone number, including area code, of registrant's principal place of business)**

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**Robert B. Fagenson**

**Co-Chief Executive Officer**

**National Holdings Corporation**

**410 Park Avenue, 14th Floor**

**New York, NY 10022**

**(212) 417-8000**

**(Name, address, including zip code, and telephone number, including area code, of registrant's agent for service)**

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*Copies to:*

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**Approximate date of commencement of proposed sale to the public.** As soon as practicable after the effective date of this registration statement.

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If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering:

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

| Title Of Each Class Of Securities To Be Registered | Amount to be Registered <sup>(1)</sup> | Proposed Maximum Offering Price Per Share) | Proposed Maximum Aggregate Offering Price | Amount Of Registration Fee <sup>(4)</sup> |
|--|--|--|---|---|
|--|--|--|---|---|

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|  |                     |         |     |              |     |          |
|--|---------------------|---------|-----|--------------|-----|----------|
| Warrants to purchase Common Stock        | 12,437,916 warrants | \$ --   | (2) | \$ --        | (2) | \$ --    |
| Common Stock, par value \$0.02 per share | 12,437,916 shares   | \$ 3.25 | (3) | \$40,423,227 | (3) | \$ 4,686 |

Pursuant to Rule 416(a) of the Securities Act of 1933, as amended, this registration statement also covers such  
(1) additional securities as may hereafter be offered or issued to prevent dilution resulting from stock splits, stock dividends, recapitalizations or similar transactions.

One warrant for each outstanding share of common stock will be issued to stockholders of the registrant entitled to receive such distribution. The warrants will be issued without consideration. Pursuant to Rule 457(g), no separate  
(2) registration fee is payable with respect to the warrants being offered hereby as the warrants are being offered in the same registration statement as the securities to be offered pursuant thereto.

The price of \$3.25 per share, which is the price at which the warrants may be exercised, is set forth solely for  
(3) purposes of calculating the registration fee pursuant to Rule 457(g) of the Securities Act.

(4) Previously paid.

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**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the commission, acting pursuant to section 8(a) may determine.**

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**The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, dated January 11, 2017**

**NATIONAL HOLDINGS CORPORATION**

**Warrants to Purchase 12,437,916 Shares of Common Stock, and 12,437,916 Shares  
of Common Stock Issuable Upon Exercise of Warrants**

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This prospectus relates to the distribution, at no charge, to holders of shares of the common stock, par value \$0.02 per share, of National Holdings Corporation of warrants to purchase up to 12,437,916 shares of our common stock (the “Warrants”) to be issued by us to the holders of our common stock on the date of the distribution of such Warrants. The Warrants will be issued by us pursuant to a warrant agreement between our company and Computershare Inc., as warrant agent. Each Warrant will be exercisable at any time on or before the fifth anniversary of the distribution date for the Warrants at an exercise price of \$3.25 per share, subject to adjustment in certain circumstances.

The record date with respect to the distribution of the Warrants was December 9, 2016. As a result of “due bill” trading procedures, those persons who held shares of our common stock as of the record date, or who acquire shares of our common stock following the record date, and in each case who continue to hold such shares of our common stock at the close of trading on the date before the ex-dividend date for the Warrants to be established by The Nasdaq Stock Market, will be entitled to receive a Warrant. Conversely, those persons who held shares of our common stock as of the record date, or who acquire shares of our common stock following the record date, but in each case who do not

hold such shares of our common stock at the close of trading on the date before the ex-dividend date, will not be entitled to receive any Warrants with respect to the shares that were sold by such person prior to the ex-dividend date.

We will not receive any proceeds from the issuance of the Warrants or from the sale or other disposition of the shares of common stock issuable upon exercise of the Warrants. However, we may receive proceeds in the aggregate amount of up to \$17.6 million if all of the Warrants (other than the Warrants issued to Fortress Biotech, Inc. or FBIO Acquisition, Inc., which entities have agreed not to exercise or transfer the Warrants issued to them) are exercised in full.

Our common stock is traded on the NASDAQ Capital Market under the symbol "NHLD". On January 6, 2017, the closing price for our common stock as reported on the NASDAQ Capital Market was \$2.76 per share. The Warrants will be listed on the NASDAQ Capital Market under the symbol "NHLDW".

**INVESTING IN OUR SECURITIES INVOLVES SUBSTANTIAL RISKS. SEE THE SECTION TITLED "RISK FACTORS" BEGINNING ON PAGE 5 OF THIS PROSPECTUS TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE INVESTING IN OUR SECURITIES.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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The date of this prospectus is January \_\_, 2017

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This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission. You should rely only on the information contained in this prospectus or any related prospectus supplement. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only on the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since such date. Other than as required under the federal securities laws, we undertake no obligation to publicly update or revise such information, whether as a result of new information, future events or any other reason.

This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any of our shares of common stock other than the shares of our common stock covered hereby, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the

distribution of this prospectus applicable to those jurisdictions.

Some of the industry data contained in this prospectus is derived from data from various third-party sources. We have not independently verified any of this information and cannot assure you of its accuracy or completeness. Such data is subject to change based on various factors, including those discussed under the “Risk Factors” section beginning on page 5 of this prospectus.

## SUMMARY

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making an investment decision with respect to our securities. You should read this entire prospectus carefully, especially the “Risk Factors” section beginning on page 5 of this prospectus and our financial statements and related notes contained in this prospectus before making an investment decision with respect to our securities. Please see the section titled, “Where You Can Find More Information,” beginning on page 64 of this prospectus. Unless the context indicates otherwise, references to “National,” “the Company,” “we,” “us,” or “our,” refers to National Holdings Corporation and its wholly-owned subsidiaries.*

## Company Overview

National Holdings Corporation, a Delaware corporation organized in 1996, operates through its wholly-owned subsidiaries, which principally provide financial services. Through our broker-dealer and investment advisory subsidiaries, we (1) offer full service retail brokerage to individual, corporate and institutional clients, (2) provide investment banking, merger and acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engage in trading securities, including making markets in micro and small-cap NASDAQ and other exchange listed stocks and (4) provide liquidity in the United States Treasury marketplace.

Our broker-dealer subsidiaries consist of National Securities Corporation, a Washington corporation (“National Securities” or “NSC”), and vFinance Investments, Inc., a Florida corporation (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York City, New York, Boca Raton, Florida, and Seattle, Washington. Our Broker-Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations, on a fully-disclosed basis. The Broker-Dealer Subsidiaries are registered with the Securities and Exchange Commission (“SEC”) and the Commodities and Futures Trading Commission, and are members of the Financial Industry Regulatory Authority (“FINRA”), the Securities Investor Protection Corporation (the “SIPC”) and the National Futures Association (“NFA”).

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

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

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

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

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

## **Recent Developments**

### Closing of Tender Offer

On September 12, 2016, FBIO Acquisition, Inc. (“FBIO Acquisition”), a wholly-owned subsidiary of Fortress Biotech, Inc. (“Fortress”), completed its tender offer (the “Offer”) for all outstanding shares of our company at a price of \$3.25 per share, net to the seller in cash (less any required withholding taxes and without interest) (the “Offer Price”), pursuant to the terms of the Agreement and Plan of Merger dated as of April 27, 2016 (as amended, the “Merger Agreement”) among our company, Fortress and FBIO Acquisition. The Offer expired at 12:00 midnight, New York City time, on Friday, September 9, 2016. Computershare Trust Company, N.A., the depositary for the Offer, advised Fortress and FBIO Acquisition that, as of the expiration time of the Offer, a total of 7,037,482 shares were validly tendered and not withdrawn (including shares delivered through notices of guaranteed delivery), representing approximately 56.6% of our issued and outstanding shares of common stock and approximately 51.4% of our issued and outstanding shares of common stock on a fully-diluted basis immediately following the completion of the Offer (in each case, without giving effect to the issuance or exercise of the Warrants). On September 12, 2016, FBIO Acquisition accepted for payment all shares that were validly tendered and not withdrawn prior to the expiration time of the Offer (such time of acceptance, the “Acceptance Time”) and delivered payment for such shares. The aggregate consideration paid by FBIO Acquisition in the Offer was approximately \$22,872,000, without giving effect to related transaction fees and expenses. Fortress funded the payment with cash on hand.

### Board of Director Changes

Effective as of the Acceptance Time and pursuant to the terms of the Merger Agreement, the size of our board of directors (the “Board”) was reduced from 11 directors to seven directors, and each of Messrs. Richard Abbe, James Ciocia, Salvatore Giardina, William Lerner, Frank S. Plimpton, Frederic B. Powers III, Joshua Silverman and Frederick Wasserman resigned as members of the Board.

Effective as of the Acceptance Time and also pursuant to the terms of the Merger Agreement, the election of each of Messrs. Michael Eustace, Neil Herskowitz, Daniel Hume, Michael Weiss and Eli Salig as members of the Board became effective. On September 21, 2016, Mr. Weiss was appointed as Chairman of the Board and Mr. Robert B. Fagenson was appointed as Vice Chairman of the Board. Mr. Mark Goldwasser originally remained as a member of the Board, but subsequently submitted his resignation as a member of the Board on September 21, 2016.

Officer Changes

Effective January 3, 2017, Michael Mullen was appointed as Co-Chief Executive Officer of our company, until such time as our other Co-Chief Executive Officer, Robert B. Fagenson, has been removed or has resigned, in which case Mr. Mullen will automatically assume the title and duties of Chief Executive Officer under the terms of the employment agreement, dated as of January 3, 2017, that we entered into with Mr. Mullen. In addition, Mr. Mullen will be Chairman of the Board of each of our operating subsidiaries including but not limited to: National Securities, NAM, National Insurance, vFinance Corporation and Gilman. Under the terms of Mr. Mullen's employment agreement, Mr. Mullen will earn a base salary of \$360,000 per year. In addition to his base salary, Mr. Mullen will be eligible to earn an annual cash bonus, conditioned upon the achievement of annual performance goals and objectives established by agreement between Mr. Mullen and our Board. Mr. Mullen's target annual bonus opportunity will be equal to 100% of his base salary, subject to his achievement of such performance goals and objectives. We will also award Mr. Mullen a total of 625,000 restricted shares of our common stock. These grants are subject to various conditions and vesting schedules, as set forth in Mr. Mullen's employment agreement.

On September 21, 2016, the Board approved the appointment of Glenn C. Worman as our Chief Financial Officer effective on October 10, 2016. At the time of such appointment, Mr. Worman served as our Executive Vice President – Finance and Chief Operating Officer. Mr. Worman replaced Alan B. Levin as our Chief Financial Officer. Mr. Levin submitted his resignation on September 26, 2016, which resignation became effective on October 10, 2016.

Stockholders Rights Agreement

In connection with the execution and delivery of the Merger Agreement, we entered into a Stockholders Rights Agreement with FBIO Acquisition (the "Stockholder Rights Agreement"). The Stockholder Rights Agreement, which became effective September 12, 2016, provides FBIO Acquisition with certain director nomination rights with respect to our Board. Specifically, commencing with our next annual meeting of our stockholders, and continuing through September 12, 2019, for so long as FBIO Acquisition holds any shares of our common stock, FBIO Acquisition will have the right to designate for nomination by our Board (or the relevant committee thereof) all directors to be elected at any annual or special meeting of our stockholders. As a result of the rights granted to FBIO Acquisition under the Stockholder Rights Agreement, FBIO Acquisition will be able to control the composition of our Board, and thereby will be able to significantly influence our corporate actions.

The Stockholder Rights Agreement also provides that if FBIO Acquisition and its affiliates own at least 35% of all then outstanding shares of our common stock, FBIO Acquisition and its affiliates will be prohibited for a certain period of time from initiating or proposing certain actions with respect to our company, including: (i) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain going-private transactions; (ii) until the earlier of September 12, 2017 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain business combinations; and (iii) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, reverse stock-splits with respect to our common stock of a ratio greater than or equal to 100 to one.

#### Agreement with Caribe BioAdvisors, LLC

As of December 30, 2016, our Board, by unanimous written consent, approved and authorized the execution of an advisory agreement dated January 1, 2017 (the “Advisory Agreement”) with Caribe BioAdvisors, LLC (the “Advisor”), owned by Michael S. Weiss (“Mr. Weiss”), the Chairman of our Board of Directors, to provide the board advisory services of Mr. Weiss as Chairman of the Board. Pursuant to the Advisory Agreement, the Advisor will be paid an annual cash fee of \$60,000, in addition to any and all annual equity incentive grants paid to members of our Board.

#### Reverse Stock Split

In February 2015, the Board declared a 1-for-10 reverse stock split of our common stock. All share and per share information contained in this prospectus give effect to the reverse stock split.

#### **Corporate Information**

Our principal executive offices are located at 410 Park Avenue, 14th Floor, New York, New York 10022. Our telephone number is (212) 417-8000 and our Internet website is [www.nhldcorp.com](http://www.nhldcorp.com). The content of our Internet website does not constitute a part of this prospectus.

## THE OFFERING

**Securities Offered:** Warrants to purchase up to 12,437,916 shares of our common stock (the “Warrants”), together with the shares of common stock issuable upon exercise of the Warrants.

**Plan of Distribution:** On or prior to February 7, 2017, we will issue the Warrants and copies of this prospectus to all holders of our common stock entitled thereto on the distribution date for no cash consideration. One Warrant will be issued to each stockholder entitled thereto on the distribution date for each outstanding share of common stock held by such stockholder. We will bear all fees and expenses relating to the distribution.

**Description of Warrants:** The Warrants will be exercisable, subject to certain exceptions as described in this prospectus, upon the date of distribution until their expiration on the fifth anniversary of the distribution date for the Warrants, at an exercise price of \$3.25 per share.

**Transferability of Warrants:** The Warrants will be freely transferable following their issuance and through their expiration, subject to compliance with applicable law. The Warrants will be listed on the NASDAQ Capital Market under the symbol “NHLDW”.

**Common stock outstanding as of September 30, 2016:** 12,437,916 shares

**Common stock outstanding after the offering:** 17,838,350 shares, assuming the exercise in full of all of the Warrants (other than the exercise of the Warrants issued to Fortress or FBIO Acquisition, which entities have agreed not to exercise or transfer the Warrants issued to them).

**Use of proceeds:** We will not receive any proceeds from the issuance of the Warrants, or from the sale of the shares of common stock issued to the warrant holders upon exercise of the Warrants. However, we may receive proceeds in the aggregate amount of up to approximately \$17.6 million if all of the Warrants (other than the Warrants issued to Fortress or FBIO Acquisition, which entities have agreed not to exercise or transfer the Warrants issued to them) are exercised for cash. See “Use of Proceeds” on page 16 of this prospectus.

**Risk Factors:** The purchase of our securities involves a high degree of risk. See “Risk Factors” beginning on page 5 and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities.

**NASDAQ Capital Market symbol:** Our common stock is listed on the NASDAQ Capital Market under the symbol “NHLD.” The Warrants will be listed on the NASDAQ Capital Market under the symbol “NHLDW”.

## **RISK FACTORS**

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

### **Risks Related to Our Business**

#### **We may not be able to sustain profitability.**

We reported pretax loss of approximately \$(2,469,000) in fiscal year 2016 as compared to pretax income of approximately \$478,000 in fiscal year 2015. There is no assurance that we will be profitable in the future. If we are unable to reach profitability, we may need to curtail, suspend or terminate certain operations.

#### **We may require additional financing.**

In order for us to have the opportunity for future success and profitability, we periodically may need to obtain additional financing, either through borrowings, public offerings, private offerings, or some type of business combination (e.g., merger, buyout, etc.). There can be no assurance that we will be successful in any such pursuits. Accordingly, if we are unable to generate adequate cash from our operations, and if we are unable to find sources of funding, such an event would have an adverse impact on our liquidity.

#### **We are exposed to risks due to our investment banking activities.**

Participation in an underwriting syndicate or a selling group involves both economic and regulatory risks. An underwriter may incur losses if it is unable to resell the securities it is committed to purchase, or if it is forced to liquidate its commitment at less than the purchase price. In addition, under federal securities laws, other laws and court decisions with respect to underwriters' liabilities and limitations on the indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for misstatements or omissions of material facts in prospectuses and other communications with respect to such offerings. Acting as a managing underwriter increases these risks. Underwriting commitments constitute a charge against net capital and our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the SEC's Uniform Net Capital Rule 15c3-1.

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

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

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

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

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

National Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which, among other things, requires the maintenance of minimum net capital. In February 2015, pursuant to a directive from FINRA, National Securities reverted back to using the alternative method of computing net capital from the aggregate indebtedness method. At September 30, 2016, National Securities had net capital of \$6,224,995, which was \$5,974,995, in excess of its required net capital of \$250,000. National Securities is exempt from the provisions of the SEC's 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.

vFinance Investments is also subject to Rule 15c3-1, 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, shall not exceed 15 to 1. At September 30, 2016, vFinance Investments had net capital of \$2,202,544, which was \$1,202,544 in excess of its required net capital of \$1,000,000. At such date, vFinance Investments' ratio of aggregate indebtedness to net capital was .8 to 1. vFinance Investments is exempt from the provisions of the SEC's 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.

Rule 15c3-1 is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with Rule 15c3-1 limits those operations of broker-dealers that require the intensive use of their capital, such as underwriting commitments and principal trading activities. Rule 15c3-1 also limits the ability of securities firms to pay dividends or make payments on certain indebtedness, such as subordinated debt, as it matures. FINRA may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, FINRA may immediately restrict or suspend certain or all of the activities of a broker-dealer. The Broker-Dealer Subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below the minimum requirements established by the SEC, and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. In addition, if Rule 15c3-1 is changed

or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain present levels of business, which could have a material adverse effect on our business.

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

As a securities broker-dealer, the business of each of the Broker-Dealer Subsidiaries is materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. Many factors or events could lead to a breakdown in the financial markets, including war, terrorism, natural catastrophes and other types of disasters. These types of events could cause people to begin to lose confidence in the financial markets and their ability to function effectively. If the financial markets are unable to effectively prepare for these types of events and ease public concern over their ability to function, our revenues are likely to decline and our operations are likely to be adversely affected.

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

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

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

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity, such as the asset price deterioration in the subprime residential mortgage market that began in 2008. Our revenue and profitability may be adversely affected by declines in the volume of securities transactions and in market liquidity. Additionally, our profitability may be adversely affected by losses from the trading or underwriting of securities or failure of third parties to meet commitments. We act as a market maker in publicly-traded shares of common stock. In market making transactions, we undertake the risk of price changes on the stock we hold in positions, or being unable to resell the shares of common stock we hold, or being unable to purchase the common stock we have sold but not yet purchased. These risks are heightened by the illiquidity of many of the shares of common stock we trade and/or in which we make a market. Any losses from our trading activities, including as a result of unauthorized trading by our employees, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

acquiring assets in a rising market.

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

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

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

**Competition with other financial firms may have a negative effect on our business.**

We compete directly with national and regional full-service broker-dealers and a broad range of other financial service firms, including banks and insurance companies. Competition has increased as smaller securities firms have been acquired by or merged into other firms. Mergers and acquisitions have increased competition from these firms, many of which have significantly greater financial, technical, marketing and other resources than we do. Many of these firms offer their customers more products and research than currently offered by us. These competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. We also face competition from companies offering discount and/or electronic brokerage services, including brokerage services provided over the Internet, which we are currently not offering and do not intend to offer in the foreseeable future. These competitors may have lower costs or provide more services, and may offer their customers more favorable commissions, fees or other terms than those offered by us. To the extent that issuers and purchasers of securities transact business without our assistance, our operating results could be adversely affected.

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

Many taxpayers seek assistance from paid tax return preparers, such as our Gilman subsidiary, because of the level of complexity involved in the tax return preparation and filing process. From time to time, government officials propose measures seeking to simplify the preparation and filing of tax returns or to provide additional assistance with respect to preparing and filing such tax returns. The passage of any measures that significantly simplify tax return preparation or otherwise reduce the need for a third party tax return preparer could reduce demand for our services, which may adversely affect operating results.

**Changes in the tax law that result in a decreased number of tax returns filed or a reduced size of tax refunds could harm our business.**

From time to time, the United States Treasury Department and the Internal Revenue Service adopt policy and rule changes and other initiatives that result in a decrease in the number of tax returns filed or reduce the size of tax refunds. Such changes in the tax law could reduce demand for our services, causing our operating results to be adversely affected.

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

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

- effectively use new technologies;

- adapt our services to emerging industry or regulatory standards; or

- market new or enhanced services.

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

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

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

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

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

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

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

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

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

**Adverse results of current litigation and potential securities law liability would result in financial losses and divert management's attention from our business.**

Many aspects of our business involve substantial risks of liability. There is a risk of litigation and arbitration within the securities industry, including class action suits seeking substantial damages. We are subject to actual and potential claims by dissatisfied customers, including claims alleging they were damaged by improper sales practices such as unauthorized trading, sale of unsuitable securities, use of false or misleading statements in the sale of securities, mismanagement and breach of fiduciary duty. We may be liable for the unauthorized acts of our retail brokers if we fail to adequately supervise their conduct. As an underwriter, we may be subject to substantial potential liability under federal and state laws and court decisions, including liability for material misstatements and omissions in securities offerings. We may be required to contribute to a settlement, defense costs or a final judgment in legal proceedings or arbitrations involving a past underwriting and in actions that may arise in the future. We carry "Errors and Omissions" insurance to protect against such legal actions; however, our policy is limited in items and amounts covered and there can be no assurance that it will cover a particular complaint. The adverse resolution of any legal proceeding involving us and/or our subsidiaries could have a material adverse effect on our business, financial condition, results of operations or cash flows.

**We face significant competition for registered representatives.**

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

**A change in the "independent contractor" status of registered representatives would adversely affect us.**

Independent contractor registered representatives operate from their own offices and are responsible in large part for the costs and expenses involved in their operations. The enactment of any legislation that would affect the eligibility requirements for independent contractor status could have a significant effect on this business model and lead to additional costs and expenses, which could have a material adverse on our results of operations.

The precautions we take to prevent and detect employee and independent contractor misconduct may not be effective, and we could be exposed to unknown and unmanaged risks or losses.

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

Misconduct by employees and independent contractors could include:

• employees and independent contractors binding us to transactions that exceed authorized limits or present unacceptable risks to us;

• employees and independent contractors hiding unauthorized or unsuccessful activities from us; or

• the improper use of confidential information.

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

**Internet and internal computer system failures or compromises of our systems or security could damage our reputation and harm our business.**

Although a significant portion of our business is conducted using traditional methods of contact and communications such as face-to-face meetings, a portion of our business is conducted through the Internet. We could experience system failures and degradations in the future. We cannot assure you that we will be able to prevent an extended and/or material system failure if any of the following events occur:

- human error;
- subsystem, component or software failure;
- a power or telecommunications failure;
- an earthquake, fire or other natural disaster or act of God;
- hacker attacks or other intentional acts of vandalism; or
- terrorist acts or war.

**Failure to adequately protect the integrity of our computer systems and safeguard the transmission of confidential information could harm our business.**

The secure transmission of confidential information over public networks is a critical element of our operations. We rely on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information over the Internet. We do not believe that we have experienced any security breaches in the transmission of confidential information. However, we cannot assure you that advancements in computer capabilities, new discoveries in the field of cryptography or other events or developments will not result in a compromise of the technology or other algorithms used by our vendors and us to protect client transactions and other data. Any compromise of our systems or security could harm our business.

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

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

**We may be required to comply with new fiduciary regulations under the U.S. Department of Labor, which may require us to change the manner in which we do business, and to incur costs in connection therewith.**

The U.S. Department of Labor has promulgated new fiduciary regulations which become effective in April 2017. These regulations may cause our brokers, our independent contractor registered representatives and us to become fiduciaries for purposes of the Employee Retirement Income Security Act of 1974, as amended, and/or Section 4975 of the Internal Revenue Code of 1986, as amended. In order to comply with the fiduciary obligations so imposed we may have to change the manner in which we do business with investors subject to ERISA and/or Section 4975 of the Internal Revenue Code, such as IRAs and small pension plans. It is unknown at this time what affect this may have on our business, if any.

## Risks Related to our Common Stock

**Our principal stockholders, including our principal stockholder, FBIO Acquisition, as well as our directors and officers, control a large percentage of shares of our common stock, and can control our corporate actions.**

Immediately following the closing of the tender offer by FBIO Acquisition on September 12, 2016, FBIO Acquisition owned approximately 56.6% of our issued and outstanding shares of common stock and approximately 51.4% of our outstanding common stock on a fully-diluted basis (or approximately 62.9% and 57.2%, respectively, after giving effect to the voting agreements that FBIO Acquisition and Fortress entered into with certain of our officers and directors in connection with the execution and delivery of the Merger Agreement), in each case, without giving effect to the issuance or exercise of the Warrants. Accordingly, FBIO Acquisition can control most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions. The concentration of the ownership of the shares of our common stock by FBIO Acquisition may also serve to limit the trading volume of our common stock. FBIO Acquisition is a wholly-owned subsidiary of Fortress, the common stock of which entity is traded on the NASDAQ Capital Market.

The control by our principal stockholder is evidenced, in part, by a stockholders rights agreement (the “Stockholder Rights Agreement”) that we entered into with FBIO Acquisition in connection with the execution and delivery of the Merger Agreement. The Stockholder Rights Agreement, which became effective September 12, 2016, provides FBIO Acquisition with certain director nomination rights with respect to our board of directors. Specifically, commencing with our next annual meeting of our stockholders, and continuing through September 12, 2019, for so long as FBIO Acquisition holds any shares of our common stock, FBIO Acquisition will have the right to designate for nomination by our board of directors (or the relevant committee thereof) all directors to be elected at any annual or special meeting of our stockholders. As a result of the rights granted to FBIO Acquisition as a result of the Stockholder Rights Agreement, FBIO Acquisition will be able to control the composition of our board of directors, and it will thereby be able to significantly influence our corporate actions.

Notwithstanding the foregoing, the Stockholder Rights Agreement provides that, for so long as FBIO Acquisition and its affiliates own at least 35% of all then outstanding shares of our common stock, FBIO Acquisition and its affiliates will be prohibited for a certain period of time from initiating or proposing certain actions with respect to our company, including: (i) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain going-private transactions; (ii) until the earlier of September 12, 2017 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain business combinations; and (iii) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, reverse stock-splits with respect to our common stock of a ratio greater than or equal to 100 to one.

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

Our common stock is traded on the NASDAQ Capital Market under the symbol “NHLD”. Traditionally, the trading volume of our common stock has been limited. For example, for the 30 trading days ending on September 30, 2016, the average daily trading volume was approximately 72,000 shares per day. During such 30-day period, the closing price of our common stock ranged from a high of \$3.45 to a low of \$3.12. We expect that this limited trading volume will continue due to the concentrated ownership of our common stock by FBIO Acquisition, and our limited public float, following the recent tender offer closing. Because of this limited trading volume, holders of our common stock may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

**The price of our common stock is volatile.**

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

variations in our annual or quarterly financial results or those of our competitors;

economic conditions in general; and

changes in applicable laws or regulations, or their judicial or administrative interpretations affecting us or our subsidiaries or the securities industry.

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

**Because our common stock may be subject to “penny stock” rules, the market for our common stock may be limited.**

If our common stock becomes subject to the SEC’s penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected. If at any time the common stock has a market price per share of less than \$5.00, and we do not have net tangible assets of at least \$2,000,000 or average revenue of at least \$6,000,000 for the preceding three years, transactions in our common stock may be subject to the “penny stock” rules promulgated under the Exchange Act. Under these rules, broker-dealers that recommend such securities to persons other than institutional accredited investors:

• must make a special written suitability determination for the purchaser;

• receive the purchaser’s written agreement to a transaction prior to sale;

• provide the purchaser with risk disclosure documents which identify certain risks associated with investing in “penny stocks” and which describe the market for these “penny stocks” as well as a purchaser’s legal remedies; and;

obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a “penny stock” can be completed.

If our common stock becomes subject to these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. As a result, the market price of our securities may be depressed, and stockholders may find it more difficult to sell our securities.

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

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

• dividend rights;

• conversion rights;

voting rights, which may be greater or lesser than the voting rights of our common stock;

rights and terms of redemption;

liquidation preferences; and;

sinking fund terms.

At September 30, 2016, there were no shares of our preferred stock outstanding. The issuance of shares of preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of our company.

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

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

Related to the foregoing, on October 3, 2016, we received a letter from the staff of the Listing Qualifications Department of The Nasdaq Stock Market (“NASDAQ”) notifying us that we no longer comply with NASDAQ Listing Rule 5620(a) for continued listing due to our failure to hold an annual meeting of stockholders within twelve months of the end of our fiscal year ended September 30, 2015 (the last meeting of stockholders was held on August 18, 2015). We were advised by NASDAQ on October 25, 2016 that it had determined to grant to us an extension of time to hold an annual meeting of our stockholders until January 31, 2017. We will hold an annual meeting of our stockholders on Thursday, January 26, 2017. If we do not hold an annual meeting of stockholders on or prior to January 31, 2017, our common stock may be subject to de-listing from the Nasdaq Capital Market.

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

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

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

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

general economic conditions;

our ability to obtain future financing or funds when needed;

our ability to maintain sufficient regulatory net capital;

the ability of our broker-dealer operations to operate profitably in the face of intense competition from larger full-service and discount brokers;

a general decrease in financing and merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed;

increased competition from on line and business development portals;

technological changes;

our potential inability to implement our growth strategy through recruiting, acquisitions or joint ventures;

acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties; and

our continued ability to maintain and execute our business strategy.

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

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

## USE OF PROCEEDS

We will not receive any proceeds from the issuance of the Warrants, or from the sale of the shares of common stock issued to the warrant holders upon exercise of the Warrants. However, we may receive proceeds in the aggregate amount of up to approximately \$17.6 million if all of the Warrants (other than the Warrants issued to Fortress or FBIO Acquisition, which entities have agreed not to exercise or transfer the Warrants issued to them) are exercised in full. We cannot predict when, or if, the Warrants will be exercised. It is possible that the Warrants may expire and may never be exercised. We intend to use any proceeds from the exercise of the Warrants for general corporate and working capital purposes.

The holders of the Warrants will pay any underwriting discounts and commissions and expenses incurred by them for brokerage, accounting, tax or legal services or any other expenses incurred by the warrant holders in disposing of the Warrants or the shares of common stock issuable upon exercise of the Warrants. We have paid all other costs, fees and expenses incurred in effecting the registration of the securities covered by this prospectus, including all registration and filing fees, and fees and expenses of our counsel and our independent registered public accountants.

## MARKET PRICE OF OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

### Market Information

On March 3, 2015, our common stock began trading on the NASDAQ Capital Market under the symbol "NHLD." Prior to the uplisting to the NASDAQ Capital Market on March 3, 2015, our common stock traded on the OTCQB under the symbol "NHLD." Quotations on the NASDAQ Capital Market and the OTCQB Market reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

The following table sets forth the high and low closing sales prices for our common stock for the periods noted below.

| <b>Fiscal Year Ended September 30, 2015</b> | <b>High</b> | <b>Low</b> |
|---|-------------|------------|
| First Quarter                               | \$5.45      | \$4.15     |
| Second Quarter                              | \$5.20      | \$3.80     |
| Third Quarter                               | \$4.05      | \$3.11     |
| Fourth Quarter                              | \$3.85      | \$2.55     |

**Fiscal Year Ended September 30, 2016 High Low**

|                |        |        |
|----------------|--------|--------|
| First Quarter  | \$2.94 | \$2.28 |
| Second Quarter | \$2.85 | \$2.03 |
| Third Quarter  | \$3.13 | \$1.91 |
| Fourth Quarter | \$3.45 | \$2.91 |

**Fiscal Year Ended September 30, 2017 High Low**

|   |         |         |
|---|---------|---------|
| First Quarter (through December 30, 2016) | \$ 3.33 | \$ 2.57 |
|---|---------|---------|

The closing price of our common stock on January 6, 2017, as quoted on the NASDAQ Capital Market, was \$2.76 per share.

**Stockholders**

As of December 9, 2016, we had approximately 563 stockholders of record and we estimated our total number of beneficial stockholders at approximately 844.

## Dividends

Delaware law authorizes our board of directors to declare and pay dividends with respect to our common stock either out of our surplus (as defined in the Delaware Corporation Law) or, in case there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year; provided, however, that no dividend may be paid out of net profits unless our capital exceeds the aggregate amount represented by the issued and outstanding stock of all classes having a preference in the distribution of assets. Our ability to pay dividends in the future also may be restricted by the obligations of our broker-deal subsidiaries to comply with the net capital requirements imposed on broker-dealers by the SEC and FINRA. We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. No cash dividends have been declared or paid by us with respect to our common stock during the past two fiscal years. However, on or prior to February 7, 2017, we will issue the Warrants as a dividend to all holders of our common stock entitled thereto on the distribution date.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

*You should read the following discussion in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. Statements made in this discussion other than statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). As such, they are subject to a number of uncertainties that could cause actual results to differ materially from the statements made. We do not undertake any obligation to update forward-looking statements.*

### **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, National Securities and vFinance Investments. 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 Gilman, which provides tax preparation services to individuals, predominantly in the middle and upper income tax brackets and accounting services to small and midsize companies.

Each of our Broker-Dealer Subsidiaries is subject to regulation by, among others, the SEC, FINRA and the MSRB, and are members of the SIPC and NFA. In addition, each of the Broker-Dealer Subsidiaries 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. Gilman is also subject to regulation by, among others, the Internal Revenue Service.

As of September 30, 2016, we had approximately 1,150 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our 34 Company offices located in New York, New Jersey, Florida, Texas, Washington and Illinois, we had approximately 127 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.

## Recent Developments

*Closing of Tender Offer.* On September 12, 2016, FBIO Acquisition, a wholly-owned subsidiary of Fortress, completed the Offer for all outstanding shares of our common stock at a price of \$3.25 per share, net to the seller in cash (less any required withholding taxes and without interest) (the “Offer Price”), pursuant to the terms of the Merger Agreement. The Offer expired at 12:00 midnight, New York City time, on Friday, September 9, 2016. Computershare Trust Company, N.A., the depositary for the Offer, advised Fortress and FBIO Acquisition that, as of the expiration time of the Offer, a total of 7,037,482 shares were validly tendered and not withdrawn (including shares delivered through notices of guaranteed delivery), representing approximately 56.6% of our issued and outstanding shares of common stock and approximately 51.4% of our issued and outstanding shares of common stock on a fully-diluted basis immediately following the completion of the Offer (in each case, without giving effect to the issuance or exercise of the Warrants). The aggregate consideration paid by FBIO Acquisition in the Offer was approximately \$22,872,000, without giving effect to related transaction fees and expenses. Fortress funded the payment with cash on hand.

*Board of Director Changes.* Effective as of the closing of the Offer and pursuant to the terms of the Merger Agreement, the size the Board was reduced from 11 directors to seven directors, and each of Messrs. Richard Abbe, James Ciocia, Salvatore Giardina, William Lerner, Frank S. Plimpton, Frederic B. Powers III, Joshua Silverman and Frederick Wasserman resigned as members of the Board.

At the time such resignations became effective, the elections of Messrs. Michael Eustace, Neil Herskowitz, Daniel Hume, Michael Weiss and Eli Salig as members of the Board became effective. In addition, on September 21, 2016, Mr. Weiss was appointed as Chairman of the Board and Mr. Robert B. Fagenson was appointed as Vice Chairman of the Board. Mr. Mark Goldwasser also remained as a member of the Board; however, he subsequently submitted his resignation as a member of the Board on September 21, 2016.

*Officer Changes.* Effective January 3, 2017, Michael Mullen was appointed as Co-Chief Executive Officer of our company, until such time as our other Co-Chief Executive Officer, Robert B. Fagenson, has been removed or has resigned, in which case Mr. Mullen will automatically assume the title and duties of Chief Executive Officer under the terms of the employment agreement, dated as of January 3, 2017, that we entered into with Mr. Mullen. In addition, Mr. Mullen will be Chairman of the Board of each of our operating subsidiaries including but not limited to: National Securities, NAM, National Insurance, vFinance Corporation and Gilman. Under the terms of Mr. Mullen’s employment agreement, Mr. Mullen will earn a base salary of \$360,000 per year. In addition to his base salary, Mr. Mullen will be eligible to earn an annual cash bonus, conditioned upon the achievement of annual performance goals and objectives established by agreement between Mr. Mullen and our Board. Mr. Mullen’s target annual bonus opportunity will be equal to 100% of his base salary, subject to his achievement of such performance goals and objectives. We will also award Mr. Mullen a total of 625,000 restricted shares of our common stock. These grants are subject to various conditions and vesting schedules, as set forth in Mr. Mullen’s employment agreement.

On September 21, 2016, the Board appointed Glenn C. Worman as our Chief Financial Officer, effective on October 10, 2016. At the time of such appointment, Mr. Worman served as our Executive Vice President - Finance and Chief Operating Officer. Mr. Worman replaced Alan B. Levin as our Chief Financial Officer. Mr. Levin submitted his resignation on September 26, 2016, which resignation became effective on October 10, 2016.

*Stockholders Rights Agreement.* In connection with the execution and delivery of the Merger Agreement, we entered into the Stockholders Rights Agreement with FBIO Acquisition. The Stockholder Rights Agreement, which became effective September 12, 2016, provides FBIO Acquisition with certain director nomination rights with respect to our Board. Specifically, commencing with our next annual meeting of our stockholders, and continuing through September 12, 2019, for so long as FBIO Acquisition holds any shares of our common stock, FBIO Acquisition will have the right to designate for nomination by our Board (or the relevant committee thereof) all directors to be elected at any annual or special meeting of our stockholders. As a result of the rights granted to FBIO Acquisition under the Stockholder Rights Agreement, FBIO Acquisition will be able to control the composition of our Board, and thereby will be able to significantly influence our corporate actions.

The Stockholder Rights Agreement also provides that if FBIO Acquisition and its affiliates own at least 35% of all then outstanding shares of our common stock, FBIO Acquisition and its affiliates will be prohibited for a certain period of time from initiating or proposing certain actions with respect to our company, including: (i) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain going-private transactions; (ii) until the earlier of September 12, 2017 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, certain business combinations; and (iii) until the earlier of September 12, 2019 and the date that FBIO Acquisition and its affiliates own less than 20% of all then outstanding shares of our common stock, reverse stock-splits with respect to our common stock of a ratio greater than or equal to 100 to one.

*Agreement with Caribe BioAdvisors, LLC.* As of December 30, 2016, our Board, by unanimous written consent, approved and authorized the execution of an advisory agreement dated January 1, 2017 (the “Advisory Agreement”) with Caribe BioAdvisors, LLC (the “Advisor”), owned by Michael S. Weiss (“Mr. Weiss”), the Chairman of our Board of Directors, to provide the board advisory services of Mr. Weiss as Chairman of the Board. Pursuant to the Advisory Agreement, the Advisor will be paid an annual cash fee of \$60,000, in addition to any and all annual equity incentive grants paid to members of our Board.

## **Growth Strategy**

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

## **Key Indicators of Financial Performance for Management**

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

## **Critical Accounting Policies and Estimates**

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

We believe our critical accounting policies are as follows:

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

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

Net dealer inventory gains, which are recorded on a trade-date basis, include realized and unrealized net gains and losses resulting from our principal trading activities.

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

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

Investment advisory fees are derived from account management and investment advisory services. These fees are determined based on a percentage of the customers assets under management, may be billed monthly or quarterly and are recognized when earned.

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

Transfer fees and fees for clearing services, which are recorded on a trade date basis, are principally charged to the broker on customer security transactions.

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

Income Taxes - We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured, using enacted tax rates expected to apply in the years in which the differences are expected to be recovered or settled. A valuation allowance related to deferred tax assets is also recorded when it is more likely than not that some or all of the deferred tax asset may not be realized.

Due to the change in ownership resulting from the completion of the Offer, our deferred tax asset relating to our net operating loss carry forwards will be subject to an annual limitation under Section 382 of the Internal Revenue Code, thereby reducing the amount of net operating loss carry forwards available to us to offset future taxable income. Such reduction resulted in a charge to income taxes of \$3,185,000 in 2016.

Goodwill - Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill represents the excess of the purchase price of Gilman over the fair value of its identifiable net assets acquired. We test goodwill for impairment at the reporting unit level. Fair value of a reporting unit is typically based upon estimated future cash flows discounted at a rate commensurate with the risk involved or market-based comparables. If the carrying amount of the reporting unit's net assets exceeds its fair value, then an analysis will be performed to compare the implied fair value of goodwill with the carrying amount of goodwill. An impairment loss will be recognized in an amount equal to the excess of the carrying amount over its implied fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities testing goodwill for impairment, the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such two-step impairment test. The annual quantitative impairment tests performed on September 30, 2016 and 2015 did not indicate any impairment of goodwill.

## **Results of Operations**

### **Fiscal Year 2016 Compared with Fiscal Year 2015**

Our fiscal year 2016 resulted in an increase in revenues, and an increase in total expenses, as compared with fiscal year 2015. Total expenses were significantly affected in 2016 due to the Fortress transaction. As a result, we reported net (loss) income before taxes of \$(2,469,000) for fiscal year 2016 as compared to \$478,000 for fiscal year 2015. We recorded income tax expense of \$3,090,000 in 2016, as compared to \$193,000 in 2015. Net income (loss) reported for fiscal years 2016 and 2015 amounted to \$(5,559,000) and \$285,000, respectively.

**Revenues**

|                                     | Fiscal Year        |                    | Increase ( Decrease) |          |          |
|-------------------------------------|--------------------|--------------------|----------------------|----------|----------|
|                                     | 2016               | 2015               | Amount               | Percent  |          |
| Commissions                         | \$95,942,000       | \$96,222,000       | \$(280,000)          | 0        | %        |
| Net dealer inventory gains          | 9,595,000          | 10,512,000         | (917,000)            | (9)      | %        |
| Investment banking                  | 35,271,000         | 21,004,000         | 14,267,000           | 68       | %        |
| Investment advisory                 | 14,080,000         | 14,967,000         | (887,000)            | (6)      | %        |
| Interest and dividends              | 3,109,000          | 3,604,000          | (495,000)            | (14)     | %        |
| Transfer fees and clearing services | 7,152,000          | 7,993,000          | (841,000)            | (11)     | %        |
| Tax preparation and accounting      | 8,294,000          | 8,248,000          | 46,000               | 1        | %        |
| Other                               | 633,000            | 496,000            | 137,000              | 28       | %        |
| <b>Total Revenues</b>               | <b>174,076,000</b> | <b>163,046,000</b> | <b>\$11,030,000</b>  | <b>7</b> | <b>%</b> |

Total revenues increased \$11,030,000, or 7%, in fiscal year 2016 to \$174,076,000 from \$163,046,000 in fiscal year 2015. The increase in revenues is primarily due to revenues generated by investment banking under a strong deal pipeline which included diverse issuers and products.

Commissions decreased by \$280,000, or 0%, to \$95,942,000 from \$96,222,000 during fiscal year 2016 when compared to fiscal 2015;

Net dealer inventory gains, which includes profits on proprietary trading, market making activities, and customer mark-ups and mark-downs decreased by \$917,000, or 9%, to \$9,595,000 from \$10,512,000 during fiscal year 2016 when compared to fiscal 2015. This business continues to demonstrate continued revenue pressure resulting from industry volume contraction related to small cap markets, lack of volatility due to low interest rates, Fed rate hike uncertainty, and fixed income products falling out of favor due to higher equity market returns;

Investment banking increased by \$14,267,000, or 68%, to \$35,271,000 from \$21,004,000, during fiscal year 2016 when compared to fiscal 2015. Increased product offerings and issuers produced a strong deal pipeline with solid offerings, which yielded strong investment opportunities for our clients;

Investment advisory, which primarily consists of fees charged to our clients in our asset-based money management group, decreased by \$887,000, or 6%, to \$14,080,000 from \$14,967,000 during fiscal year 2016 when compared to fiscal 2015. While assets under management have increased on a consistent basis over the past year, average revenue earned on our asset portfolio has declined due to a reduction of fees on certain asset classes, and the elimination of unprofitable business;

Interest and dividends, which primarily consists of interest earned on customer margin account balances and dividend revenue, decreased by \$495,000, or 14%, to \$3,109,000 from \$3,604,000 during fiscal year 2016 when compared to

fiscal 2015. The decrease is primarily attributable to slightly lower customer margin and free cash accounts balances;

Transfer fees and clearing services, which primarily consists of fees charged to our registered representatives to execute on their behalf, decreased by \$841,000, or 11%, to \$7,152,000 from \$7,993,000 during fiscal year 2016 when compared to fiscal 2015. The decrease is consistent with the fewer number of transactions made on behalf of our clients during the most recent year consistent with the decline in commission revenue;

Tax preparation and accounting, which primarily consists of fees charged to clients for the preparation of income tax returns and other general accounting services increased by \$46,000, or 1%, to \$8,294,000 from \$8,248,000 during fiscal year 2016 when compared to fiscal 2015. The increase is primarily due to the acquisition of a tax preparation and accounting office in February 2015 resulting in the preparation of more returns for our clients during fiscal 2016;

Other revenue increased by \$137,000, or 28%, to \$633,000 from \$496,000 during fiscal year 2016 when compared to fiscal 2015. This increase is primarily due to additional revenue in 2016 related to our fully paid lending program.

*Operating expense*

|                                    | Fiscal Year        |                    | Increase (Decrease) |          |          |
|------------------------------------|--------------------|--------------------|---------------------|----------|----------|
|                                    | 2016               | 2015               | Amount              | Percent  |          |
| Commissions, compensation and fees | 151,057,000        | 139,452,000        | 11,605,000          | 8        | %        |
| Clearing fees                      | 2,309,000          | 2,904,000          | (595,000 )          | (20      | )%       |
| Communications                     | 3,157,000          | 3,792,000          | (635,000 )          | (17      | )%       |
| Occupancy                          | 3,819,000          | 3,962,000          | (143,000 )          | (4       | )%       |
| Licenses and registration          | 1,625,000          | 1,364,000          | 261,000             | 19       | %        |
| Professional fees                  | 6,896,000          | 4,489,000          | 2,407,000           | 54       | %        |
| Interest                           | 51,000             | 13,000             | 38,000              | 292      | %        |
| Depreciation and amortization      | 1,213,000          | 1,127,000          | 86,000              | 8        | %        |
| Other administrative expenses      | 6,418,000          | 5,465,000          | 953,000             | 17       | %        |
| <b>Total Operating Expenses</b>    | <b>176,545,000</b> | <b>162,568,000</b> | <b>13,977,000</b>   | <b>9</b> | <b>%</b> |

In comparison with the 7% increase in total revenues, total expenses increased 9%, or \$13,977,000, to \$176,545,000 for fiscal year 2016 compared to \$162,568,000 in fiscal year 2015. The increase in total expenses is primarily due to our recent transaction with Fortress. Commissions, compensation and fees increased due to higher investment banking revenue but is also inclusive of severance charges.

Commission, compensation, and fees include those expenses based on commission revenue, net dealer inventory gains revenue and investment banking revenues, as well as compensation to our non-broker employees. These expenses increased by \$11,605,000, or 8%, to \$151,057,000 in fiscal year 2016 from \$139,452,000 in fiscal year 2015. The net increase in investment banking revenue was primarily responsible for the overall increase in this expense category. Investment banking compensation moved in step with the increase in related revenues. In addition, we had severance charges of approximately \$1,056,000 related to officer employment terminations;

Clearing fees decreased by \$595,000, or 20%, to \$2,309,000 in fiscal year 2016 from \$2,904,000 in fiscal year 2015. The decrease is largely the result of the decline in total transactions executed during the 2016 fiscal year;

Communication expenses decreased by \$635,000, or 17%, to \$3,157,000 in fiscal year 2016 from \$3,792,000 in fiscal year 2015. This decrease is attributable to management commitment to expense control through continued evaluation and renegotiation of numerous telecommunication contracts;

Occupancy expenses decreased by \$143,000, or 4%, to \$3,819,000 in fiscal year 2016 from \$3,962,000 in fiscal year 2015. This decrease is primarily due to the continuous review and renegotiation of leases and wherever possible, the consolidation of offices and reduction of the square footage of office space rented;

Licenses and registration costs increased by \$261,000, or 19%, to \$1,625,000 in fiscal year 2016 from \$1,364,000 in fiscal year 2015. This increase is primarily due to the implementation of new supervisory software;

Professional fees increased by \$2,407,000, or 54% to \$6,896,000 in fiscal year 2016 from \$4,489,000 in fiscal year 2015. The increase in professional fees is primarily due to the transaction with Fortress;

Interest expense increased by \$38,000, or 292%, to \$51,000 in fiscal year 2016 from \$13,000 in fiscal year 2015;

Depreciation and amortization expense increased by \$86,000, or 7%, to \$1,213,000 in fiscal year 2016 from \$1,127,000 in fiscal year 2015. The increase is primarily due to the acquisition of computer equipment in 2016;

Other administrative expenses, which includes but is not limited to advertising, equipment leases, office supplies, dues and subscriptions and insurance, increased by \$953,000, or 17%, to \$6,418,000 in fiscal year 2016 from \$5,465,000 in fiscal year 2015. This increase is primarily due to impairment expense on the valuation for the Gilman brand name of \$894,000 in 2016.

***Income tax expense***

Due to the change in ownership resulting from the completion of the Offer discussed in Note 18 of our consolidated financial statements, our deferred tax asset relating to our net operating loss carry forwards will be subject to an annual limitation under Section 382 of the Internal Revenue Code, thereby reducing the amount of net operating loss carry forwards available to us to offset future taxable income. Such reduction resulted in a write-off of deferred income taxes of \$3,185,000 in 2016. The income tax provision related to pre-tax loss in 2016 varies from the federal statutory rate principally from such write-off and expenses related to the Offer which are not deductible for income tax purposes.

**Net Income**

We reported net (loss) in fiscal 2016 of \$(5,559,000) or \$(0.45) per common share on a fully diluted basis, as compared to net income of \$285,000, or \$0.02 per common share on a fully diluted basis in fiscal year 2015.

**NON-G.A.A.P. 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 of directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-based compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income (loss), net income (loss) and cash flows from operating activities. For fiscal years 2016 and 2015, EBITDA, as adjusted, was \$688,000 and \$2,746,000, respectively. This decrease of \$2,058,000 during fiscal year 2016 when compared to 2015 is largely due to expenses related to the Fortress transaction.

Expenses related to the Fortress transaction were approximately \$4.3 million and consisted of legal and consulting fees of \$3 million included in professional fees, officers expense of \$1.1 million included in commissions, compensation and fees and other fees of \$0.2 million included in other administrative expenses.

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

|                                 | Fiscal Year Ended |             |
|---------------------------------|-------------------|-------------|
|                                 | 2016              | 2015        |
| Net (loss) income, as reported  | \$(5,559,000)     | \$285,000   |
| Interest expense                | 51,000            | 13,000      |
| Income taxes                    | 3,090,000         | 193,000     |
| Depreciation and amortization   | 1,213,000         | 1,127,000   |
| EBITDA                          | (1,205,000)       | 1,618,000   |
| Non-cash compensation expense   | 211,000           | 590,000     |
| Forgivable loan amortization    | 788,000           | 538,000     |
| Impairment of intangible assets | 894,000           | -           |
| EBITDA, as adjusted             | \$688,000         | \$2,746,000 |

EBITDA, as adjusted for non-cash compensation expense, forgivable loan amortization and impairment of intangible assets is a key metric we use in evaluating our business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC.

**Liquidity and Capital Resources**

|  | Ending Balance |              | Average Balance |              |
|--|----------------|--------------|-----------------|--------------|
|  | September 30,  |              | during fiscal   |              |
|  | 2016           | 2015         | 2016            | 2015         |
| Cash   | \$21,694,000   | \$24,642,000 | \$22,227,000    | \$23,691,750 |
| Receivables from broker-dealers and clearing organizations                           | 3,357,000      | 3,078,000    | 3,315,250       | 3,568,750    |
| Securities owned - at fair value   | 2,357,000      | 887,000      | 1,274,250       | 1,179,000    |
| Accrued commissions and payroll payable, accounts payable and other accrued expenses | 19,106,000     | 16,846,000   | 16,722,750      | 16,929,500   |

At both September 30, 2016 and 2015, 45% 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.

In addition, as registered broker-dealers and members of FINRA, the Broker-Dealer Subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid overstating of the broker-dealer's net capital.

National Securities is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) (the Rule), which, among other things, requires the maintenance of minimum net capital. At September 30, 2016, National Securities had net capital of \$6,224,995 which was \$5,974,995 in excess of its required net capital of \$250,000. National Securities is exempt from the provisions of Rule 15c-3-3 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.

vFinance Investments is also subject to the 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, shall not exceed 15 to 1. At September 30, 2016, vFinance Investments had net capital of \$2,202,544 which was \$1,202,544 in excess of its required net capital of \$1,000,000. vFinance Investments ratio of aggregate indebtedness to net capital was .8 to 1. vFinance Investments is exempt from the provisions of Rule 15c-3-3 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 the Broker-Dealer Subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to us. During 2016 and 2015, the Broker-Dealer Subsidiaries 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 through at least 2017. However, we may need to raise funds to enhance our working capital and for strategic purposes.

At September 30, 2016, National Holdings Corporation had no interest-bearing debt.

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 have amounted to \$932,000 and \$254,000 during fiscal years 2016 and 2015, respectively.

|  | Year ended September 30, |             |
|--|--------------------------|-------------|
|  | 2016                     | 2015        |
| <b>Cash flows from operating activities</b>                        |                          |             |
| Net (Loss) Income  | \$(5,559,000)            | \$285,000   |
| Depreciation and amortization                                      | 1,213,000                | 1,127,000   |
| Deferred tax expense   | 2,704,000                | 263,000     |
| Amortization of forgivable loans                                   | 788,000                  | 538,000     |
| Stock-based compensation   | 211,000                  | 590,000     |
| Other  | 864,000                  | 62,000      |
| Changes in operating assets and liabilities                        |                          |             |
| Receivables from clearing organizations, broker-dealers and others | (2,162,000)              | 1,959,000   |
| Forgivable loans   | (1,132,000)              | (1,257,000) |
| Accounts payable and accrued expenses and other liabilities        | 2,012,000                | (2,933,000) |
| Other  | (1,381,000)              | (58,000)    |
| Net cash (used in) provided by operating activities                | (2,442,000)              | 576,000     |
| Cash flows from investing activities                               |                          |             |
| Purchase of fixed assets   | (420,000)                | (254,000)   |
| Net cash used in investing activities                              | (420,000)                | (254,000)   |
| Cash flows from financing activities                               |                          |             |
| Repurchase of shares of common stock                               | (86,000)                 | (145,000)   |
| Net cash used in by financing activities                           | (86,000)                 | (145,000)   |
| Net (decrease) increase in cash                                    | \$(2,948,000)            | \$177,000   |

*Year ended September 30, 2016*

The increase in receivables from clearing organizations, broker-dealers and others at September 30, 2016 as compared to September 30, 2015 is primarily due to the higher revenues in September 2016 as compared to September 2015. These receivables are typically received within 30 days of the close of the month. The increase in forgivable loans in fiscal 2016 as compared 2015 is a result of an increase in loans associated with the engagement of new brokers. The increase in accounts payable, accrued expenses and other liabilities at September 30, 2016 as compared to September 30, 2015 is primarily due to higher commissions payable resulting from higher revenues at September 30, 2016 as compared to September 30, 2015. The increase in Other at September 30, 2016 as compared to September 30, 2015 is primarily due to higher positions of securities held at September 30, 2016 as compared to September 30, 2015.

Cash used in investing activities during fiscal year 2016 is attributable to cash used to acquire fixed assets, primarily consisting of computer equipment.

Cash used in financing activities during fiscal year 2016 consists of the repurchase of our common stock.

*Year ended September 30, 2015*

The decrease in receivables from clearing organizations, broker-dealers and others at September 30, 2015 as compared to September 30, 2014 is primarily due to the lower revenues in September 2015 as compared to September 2014. These receivables are typically received within 30 days of the close of the month. The increase in forgivable loans in fiscal 2015 as compared 2014 is a result of an increase in payments associated with the engagement of new brokers. The decrease in accounts payable, accrued expenses and other liabilities at September 30, 2015 as compared to September 30, 2014 is primarily due to the reduction in commissions payable resulting from lower revenues at September 30, 2015 as compared to September 30, 2014 and the reduction of income tax liabilities offset by an increase in vendor payables.

Cash used in investing activities during fiscal year 2015 is attributable to cash used to acquire fixed assets, primarily consisting of computer equipment.

Cash used in financing activities during fiscal year 2015 consists of the repurchase of our common stock.

*Operating cash flows from period to period*

Our cash flows from operating activities declined to \$(2,442,000) from \$576,000 for fiscal years 2016 and 2015, respectively. Such decrease is primarily attributable to the following:

Costs incurred related to the Fortress transaction; and

Aforementioned changes in assets and liabilities during the respective periods.

**Inflation**

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

**Off-Balance Sheet Arrangements**

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

**New Accounting Guidance**

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The update requires the netting of unrecognized tax benefits against a deferred tax asset for the loss or other carryforward that would apply in settlement of the uncertain tax positions. The new guidance was effective for us beginning October 1, 2014. The adoption did not have any impact on our financial statements.

In April 2014, the FASB issued ASU 2014-8, which changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued

operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. ASU 2014-08, which is to be applied prospectively to all new disposals of components and new classifications as held for sale, became effective in annual periods beginning on or after December 15, 2014 and interim periods within those annual periods with early adoption allowed. We adopted ASU 2014-08 on October 1, 2015, which did not have any impact on our financial statements.

In May 2014, the FASB issued an accounting standard update on revenue recognition. The new guidance creates a single, principle-based model for revenue recognition and expands and improves disclosures about revenue. The new guidance is effective for us beginning October 1, 2018, and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. We are currently evaluating the potential impact of this standard on our financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 will become effective for us beginning October 1, 2016 and early adoption is permitted. We do not anticipate that the adoption of ASU 2014-08 will have a material impact on our financial statements.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis", which is effective for fiscal years and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-02 amends the assessment whether a limited partnership is a variable interest entity; the effect that fees paid to a decision maker have on the consolidation analysis; how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion; and for entities other than limited partnerships, clarifies how to determine whether the equity holders as a group have power over an entity. In fiscal year 2015, we early adopted ASU 2015-02 (see Note 2 of our consolidated financial statements, "Summary of Significant Accounting Policies" - Variable Interest Entities).

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for us beginning October 1, 2019 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. We are currently assessing the impact that the adoption of ASU 2016-02 will have on our financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for us beginning October 1, 2017 for both interim and annual reporting periods. We are currently assessing the impact that the adoption of ASU 2016-09 will have on our financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments”. ASU 2016-15 reduces the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The ASU should be applied retrospectively to all periods presented. We do not anticipate that the adoption of ASU 2016-15 will have a material impact on our financial statements.

### **Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk arises from the fact that we engage in proprietary trading and make dealer markets in equity securities. Accordingly, we may be required to maintain certain amounts of inventories in order to facilitate customer order flow. We may incur losses as a result of price movements in these inventories due to changes in interest rates, foreign exchange rates, equity prices and other political factors. We are not subject to direct market risk due to changes in foreign exchange rates. However, we are subject to market risk as a result of changes in interest rates and equity prices, which are affected by global economic conditions. We manage our exposure to market risk by limiting our net long or short positions. Trading and inventory accounts are monitored daily by management and we have instituted position limits.

Credit risk represents the amount of accounting loss we could incur if counterparties to our proprietary transactions fail to perform and the value of any collateral proves inadequate. Although credit risk relating to various financing activities is reduced by the industry practice of obtaining and maintaining collateral, we maintain more stringent requirements to further reduce our exposure. We monitor our exposure to counterparty risk on a daily basis by using credit exposure information and monitoring collateral values. We maintain a credit committee, which reviews margin requirements for large or concentrated accounts and sets higher requirements or requires a reduction of either the level of margin debt or investment in high-risk securities or, in some cases, requiring the transfer of the account to another broker-dealer.

We monitor our market and credit risks daily through internal control procedures designed to identify and evaluate the various risks to which we are exposed. There can be no assurance, however, that our risk management procedures and internal controls will prevent losses from occurring as a result of such risks.

The following table shows the fair values of our securities owned and securities sold, but not yet purchased as of September 30, 2016 and 2015:

|                           | <b>Securities</b>           |  |
|---------------------------|-----------------------------|--|
| <b>September 30, 2016</b> | <b>Securities<br/>owned</b> | <b>sold, but<br/>not yet<br/>purchased</b> |
| Corporate stocks          | \$ 101,000                  | \$ 298,000                                 |
| Municipal bonds           | 2,111,000                   | -  |
| Restricted stock          | 145,000                     | -  |
| Total                     | \$2,357,000                 | \$ 298,000                                 |

|                           | <b>Securities</b>           |  |
|---------------------------|-----------------------------|--|
| <b>September 30, 2015</b> | <b>Securities<br/>owned</b> | <b>sold, but<br/>not yet<br/>purchased</b> |