

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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**Pryor Cashman LLP**

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New York, New York 10036

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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 f**