NATIONAL HOLDINGS CORP
Form 10-Q
August 14, 2017

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

FORM 10-Q

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

For the Quarter Ended June 30, 2017	Commission File Number 001-12629

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

Delaware	36-4128138
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Vesey Street, 25th Floor, New York, NY 10281
(Address including zip code of principal executive offices)
Registrant's telephone number, including area code: (212) 417-8000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)	Smaller Reporting Company
	Emerging Growth Company

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

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

As of August 11, 2017 there were 12,437,916 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION
FORM 10-Q
QUARTERLY PERIOD ENDED JUNE 30, 2017

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements involve estimates, assumptions and uncertainties, and, accordingly, actual results could differ materially from those expressed in the forward-looking statements. These uncertainties include, among others, the following: (i) the inability of our broker-dealer operations to operate profitably in the face of intense competition from larger full service and discount brokers; (ii) a general decrease in merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed; (iii) increased competition from business development portals; (iv) technological changes; (v) our potential inability to implement our growth strategy through acquisitions or joint ventures; and (vi) our potential inability to secure additional debt or equity financing.

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

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2017 (Unaudited)	September 30, 2016
ASSETS		
Cash	$28,205,000	$21,694,000
Restricted cash	1,380,000	354,000
Cash deposits with clearing organizations	1,040,000	1,030,000
Securities owned, at fair value	1,595,000	2,357,000
Receivables from broker-dealers and clearing organizations	2,786,000	3,357,000
Forgivable loans receivable	1,269,000	1,712,000
Other receivables, net	4,748,000	5,430,000
Prepaid expenses	1,155,000	1,910,000
Fixed assets, net	2,192,000	1,164,000
Intangible assets, net	5,119,000	5,704,000
Goodwill	6,226,000	6,531,000
Deferred tax asset, net	8,566,000	8,958,000
Other assets, principally refundable deposits	339,000	345,000
Total Assets	$64,620,000	$60,546,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Securities sold, but not yet purchased, at fair value	$—	$298,000
Accrued commissions and payroll payable	11,255,000	11,940,000
Accounts payable and accrued expenses	8,508,000	7,166,000
Deferred clearing and marketing credits	838,000	995,000
Warrants issued in 2017 and issuable in 2016	8,832,000	14,055,000
Other	193,000	319,000
Total Liabilities	29,626,000	34,773,000
Stockholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; none outstanding	—	—
Common stock $0.02 par value, authorized 75,000,000 shares at June 30, 2017 and 150,000,000 shares at September 30, 2016; 12,437,916 shares issued and outstanding at June 30, 2017 and September 30, 2016	248,000	248,000
Additional paid-in-capital	66,665,000	66,353,000
Accumulated deficit	(31,934,000)	(40,843,000)
Total National Holdings Corporation Stockholders' Equity	34,979,000	25,758,000
Non-Controlling interest	15,000	15,000
Total Stockholders' Equity	34,994,000	25,773,000
Total Liabilities and Stockholders' Equity	$64,620,000	$60,546,000

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

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

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2017	2016	2017	2016
Revenues				
Commissions	$24,881,000	$25,051,000	$73,380,000	$71,722,000
Net dealer inventory gains	1,789,000	2,340,000	6,666,000	7,483,000
Investment banking	12,623,000	10,735,000	38,532,000	22,921,000
Investment advisory	3,604,000	3,361,000	10,480,000	10,337,000
Interest and dividends	675,000	702,000	2,065,000	2,415,000
Transaction fees and clearing services	1,649,000	1,591,000	5,834,000	5,512,000
Tax preparation and accounting	2,527,000	2,386,000	6,527,000	7,222,000
Other	299,000	176,000	1,016,000	385,000
Total Revenues	48,047,000	46,342,000	144,500,000	127,997,000
Operating Expenses				
Commissions, compensation and fees	39,963,000	39,667,000	118,983,000	110,260,000
Clearing fees	470,000	509,000	1,826,000	1,798,000
Communications	690,000	786,000	2,094,000	2,427,000
Occupancy	972,000	982,000	2,916,000	2,886,000
License and registration	391,000	417,000	1,223,000	1,155,000
Professional fees	1,083,000	2,327,000	3,336,000	4,897,000
Interest	5,000	13,000	13,000	16,000
Depreciation and amortization	288,000	302,000	871,000	898,000
Other administrative expenses	3,610,000	1,624,000	7,315,000	3,973,000
Total Operating Expenses	47,472,000	46,627,000	138,577,000	128,310,000
Income (Loss) before Other Income (Expense) and Income Taxes	575,000	(285,000)	5,923,000	(313,000)
Other Income (Expense)				
Gain on disposal of Gilman branches	—	—	130,000	—
Change in fair value of warrants	(642,000)	—	5,223,000	—
Other income	5,000	—	10,000	—
Total Other Income (Expense)	(637,000)	—	5,363,000	—
Income (Loss) before Income Taxes	(62,000)	(285,000)	11,286,000	(313,000)
Income tax expense (benefit)	(38,000)	(124,000)	2,377,000	(69,000)
Net Income (Loss)	$(24,000)	$(161,000)	$8,909,000	$(244,000)
Net income (loss) per share - Basic	$—	$(0.01)	$0.72	$(0.02)
Net income (loss) per share - Diluted	$—	$(0.01)	$0.72	$(0.02)
Weighted average number of shares outstanding - Basic	12,437,916	12,440,035	12,437,916	12,442,059
Weighted average number of shares outstanding - Diluted	12,437,916	12,440,035	12,459,834	12,442,059

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
FOR THE NINE MONTHS ENDED JUNE 30, 2017

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Non-Controlling Interest	Total Stockholders' Equity
	Shares	$				
Balance, September 30, 2016	12,437,916	$248,000	$66,353,000	$(40,843,000)	$ 15,000	$25,773,000
Stock-based compensation – restricted stock units			312,000			312,000
Net income				8,909,000		8,909,000
Balance, June 30, 2017	12,437,916	$248,000	$66,665,000	$(31,934,000)	$ 15,000	$34,994,000

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

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

	For The Nine Month Period Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$8,909,000	$(244,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Change in fair value of warrants	(5,223,000)	—
Depreciation and amortization	871,000	898,000
Amortization of forgivable loans to registered representatives	520,000	493,000
Stock-based compensation	312,000	125,000
Provision (recovery) for doubtful accounts	(274,000)	121,000
Amortization of deferred clearing credit	(157,000)	(157,000)
Increase in fair value of contingent consideration payable	21,000	12,000
Deferred tax expense (benefit)	392,000	(139,000)
Gain on disposal of Gilman branches	(130,000)	—
Changes in assets and liabilities		
Restricted cash	(1,026,000)	(135,000)
Cash deposits with clearing organizations	(10,000)	(25,000)
Securities owned, at fair value	762,000	(635,000)
Receivables from broker-dealers and clearing organizations	571,000	(532,000)
Forgivable loans receivable	(77,000)	(933,000)
Other receivables, net	1,566,000	(264,000)
Prepaid expenses	755,000	89,000
Other assets, principally refundable deposits	6,000	206,000
Accounts payable, accrued expenses and other liabilities	(347,000)	(727,000)
Securities sold, but not yet purchased, at fair value	(298,000)	(32,000)
Net cash provided by (used in) operating activities	7,143,000	(1,879,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	(19,000)	—
Purchase of fixed assets	(641,000)	(470,000)
Collection on notes receivable - disposal of Gilman branches	28,000	—
Net cash used in investing activities	(632,000)	(470,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares of common stock	—	(86,000)
Net cash used in financing activities	—	(86,000)
NET INCREASE (DECREASE) IN CASH	6,511,000	(2,435,000)
CASH BALANCE		
Beginning of the period	21,694,000	24,642,000
End of the period	$28,205,000	$22,207,000

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

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$11,000	$16,000
Income taxes	$1,004,000	$76,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Fixed assets (acquired but not paid)	$665,000	$—
Business acquired:		
Identifiable intangible asset acquired	$211,000	$—
Contingent consideration payable	(192,000)	—
Cash paid	$19,000	$—
Sale of Gilman branches:		
Notes receivable (included in other receivables)	$638,000	$—
Disposal of goodwill	(305,000)	—
Disposal of intangible assets, net	(203,000)	—
Gain on disposal of Gilman branches	$130,000	$—

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of the Company, have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements as of June 30, 2017 and for the three and nine months ended June 30, 2017 and 2016 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the respective fiscal years. The consolidated statement of financial condition at September 30, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. The accompanying consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2016 for additional disclosures and accounting policies.

Certain items in the condensed consolidated statement of operations for the fiscal 2016 period have been reclassified to conform to the presentation in the fiscal 2017 period. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

NOTE 2. ORGANIZATION AND DESCRIPTION OF BUSINESS

National Holdings Corporation (“National” or the “Company”), a Delaware corporation organized in 1996, operates through its wholly owned subsidiaries which principally provide financial services. Through its broker-dealer and investment advisory subsidiaries, the Company (1) offers full service retail brokerage and investment advisory services to individual, corporate and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engages in trading securities, including making markets in micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Broker-dealer subsidiaries consist of National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“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. 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 and the National Futures Association.

The Company’s wholly-owned subsidiary, National Asset Management, Inc. ("NAM"), is a federally-registered investment adviser providing asset management advisory services to retail clients for a fee based upon a percentage of assets managed.

The Company’s wholly-owned subsidiaries, National Insurance Corporation ("National Insurance") and Prime Financial Services ("Prime Financial"), provide fixed insurance products to their clients, including life insurance, disability insurance, long term care insurance and fixed annuities.

The Company’s wholly-owned subsidiary, Gilman Ciocia, Inc. ("Gilman"), provides tax preparation and accounting services to individuals and small to midsize companies.

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

On September 9, 2016, a subsidiary of Fortress Biotech, Inc. (“Fortress”), acquired a controlling interest in the Company. See Note 19.

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

At June 30, 2017 and September 30, 2016, the receivables of $2,786,000 and $3,357,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions associated with the Company’s retail brokerage business as well as asset based fee revenues associated with the Company’s Investment advisory business.

Other receivables, net, at June 30, 2017 and September 30, 2016 of $4,748,000 and $5,430,000, respectively, principally represent (a) trailing fees of $1,196,000 and $1,250,000, respectively, (b) fees for tax and accounting services of $546,000 and $864,000, respectively, net of allowance for doubtful accounts of $307,000 and $581,000, respectively, (c) advances to registered representatives of $889,000 and $918,000, respectively, net of allowance for doubtful accounts of $154,000 for both periods, (d) receivable related to investment banking of $773,000 and $1,877,000, respectively, (e) receivable related to advisory fees of $486,000 and $597,000, respectively, and (f) notes receivable in the aggregate principal amount of $613,000 at June 30, 2017 from the sale of two Gilman branches (see Note 7).

NOTE 4. FORGIVABLE LOANS RECEIVABLE

From time to time, the Company's operating subsidiaries may make loans, evidenced by promissory notes, primarily to newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest rates ranging up to 9%). These notes have various schedules for repayment or forgiveness based on production or retention requirements being met and mature at various dates through 2021. Forgiveness of loans amounted to $520,000 and $493,000 for the nine months ended June 30, 2017 and 2016, respectively, and the related compensation was included in commissions, compensation and fees in the condensed consolidated statements of operations. In the event the advisor’s affiliation with the subsidiary terminates, the advisor is required to repay the unamortized balance of any notes payable.

The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of June 30, 2017 and September 30, 2016, no allowance for doubtful accounts was required.

Forgivable loan activity for the nine months ended June 30, 2017 is as follows:

Balance, October 1, 2016	$1,712,000
Additions	77,000
Amortization	(520,000)
Balance, June 30, 2017	$1,269,000

There were no unamortized loans outstanding at June 30, 2017 and September 30, 2016 attributable to registered representatives who ended their affiliation with the Broker-Dealer Subsidiaries prior to the fulfillment of their obligation.

NOTE 5. FAIR VALUE OF ASSETS AND LIABILITIES

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market or income approach are used to measure fair value. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

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

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

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

The following tables present the carrying values and estimated fair values at June 30, 2017 and September 30, 2016 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy. Such instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

	June 30, 2017			
Assets	Carrying Value	Level 1	Level 2	Total Estimated Fair Value
Cash	$28,205,000	$28,205,000	$—	$28,205,000
Cash deposits with clearing organizations	1,040,000	1,040,000	—	1,040,000
Receivables from broker-dealers and clearing organizations	2,786,000	—	2,786,000	2,786,000
Forgivable loans receivable (1)	1,269,000	—	1,269,000	1,269,000
Other Receivables, Net	4,748,000	—	4,748,000	4,748,000
	$38,048,000	$29,245,000	$8,803,000	$38,048,000
Liabilities				
Accrued commissions and payroll payable	11,255,000	—	11,255,000	11,255,000
Accounts payable and accrued expenses (2)	7,871,000	—	7,871,000	7,871,000
	$19,126,000	$—	$19,126,000	$19,126,000

(1) Carrying value approximates fair value, which is determined based on a valuation technique to convert future cash payments or forgiveness transactions to a single discounted preset value amount.

(2) Excludes contingent consideration liabilities of $637,000.

	September 30, 2016			
Assets	Carrying Value	Level 1	Level 2	Total Estimated Fair Value
Cash	$21,694,000	$21,694,000	$—	$21,694,000
Cash deposits with clearing organizations	1,030,000	1,030,000	—	1,030,000
Receivables from broker-dealers and clearing organizations	3,357,000	—	3,357,000	3,357,000
Forgivable loans receivable (1)	1,712,000	—	1,712,000	1,712,000
Other Receivables, Net	5,430,000	—	5,430,000	5,430,000
	$33,223,000	$22,724,000	$10,499,000	$33,223,000
Liabilities				
Accrued commissions and payroll payable	11,940,000	—	11,940,000	11,940,000
Accounts payable and accrued expenses (2)	6,742,000	—	6,742,000	6,742,000
	$18,682,000	$—	$18,682,000	$18,682,000

(1) Carrying value approximates fair value, which is determined based on a valuation technique to convert future cash payments or forgiveness transactions to a single discounted preset value amount.

(2) Excludes contingent consideration liabilities of $424,000.

The following tables present the financial assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and September 30, 2016:

	June 30, 2017				
Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Corporate stocks	$70,000	$70,000	$—	$—	$70,000
Municipal bonds	1,333,000	816,000	517,000	—	1,333,000
Restricted stock	192,000	—	192,000	—	192,000
	$1,595,000	$886,000	$709,000	$—	$1,595,000
Liabilities					
Contingent consideration	637,000	—	—	637,000	637,000
Warrants issued	8,832,000	—	8,832,000	—	8,832,000
	$9,469,000	$—	$8,832,000	$637,000	$9,469,000

	September 30, 2016				
Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Corporate stocks	$101,000	$101,000	$—	$—	$101,000
Municipal bonds	2,111,000	2,111,000	—	—	2,111,000
Restricted stock	145,000	—	145,000	—	145,000
	$2,357,000	$2,212,000	$145,000	$—	$2,357,000
Liabilities					
Contingent consideration	424,000	—	—	424,000	424,000
Warrants issuable	14,055,000	—	14,055,000	—	14,055,000
Corporate stocks	298,000	298,000	—	—	298,000
	$14,777,000	$298,000	$14,055,000	$424,000	$14,777,000

NOTE 6. FIXED ASSETS

Fixed assets as of June 30, 2017 and September 30, 2016 consist of the following:

	June 30, 2017	September 30, 2016	Estimated Useful Lives
Equipment and software	$1,741,000	$ 1,036,000	5
Furniture and fixtures	338,000	163,000	5
Leasehold improvements	1,079,000	653,000	Lesser of useful life or term of lease
Capital leases (primarily composed of computer equipment)	739,000	739,000	5
	3,897,000	2,591,000	
Less accumulated depreciation and amortization	(1,705,000)	(1,427,000)	
Fixed assets – net	$2,192,000	$ 1,164,000	

Depreciation expense associated with fixed assets for the three months ended June 30, 2017 and 2016 was $91,000 and $122,000, respectively.

Depreciation expense associated with fixed assets for the nine months ended June 30, 2017 and 2016 was $278,000 and $345,000, respectively.

NOTE 7. BUSINESS COMBINATION, CONTINGENT CONSIDERATION AND DISPOSAL OF BRANCHES

Business Combination

In October 2016, Gilman acquired certain assets of a tax preparation and accounting business that was deemed to be a business acquisition. The consideration for the transaction consisted of a cash payment at closing of $19,000 and contingent consideration payable in cash having a fair value of $192,000, for which a liability (included in Accounts payable and accrued expenses) was recognized based on the estimated acquisition date fair value of the potential earn-out. The earn-out is based on revenue, as defined in the acquisition agreement, during the 36-month period following the closing up to a maximum of $225,600. The liability was valued using an income-based approach using unobservable inputs (Level 3) and reflects the Company's own assumptions. The liability will be revalued at each Balance Sheet date with changes therein recorded in earnings. The fair value of the acquired assets was allocated to customer relationships, which is being amortized over three years. Results of operations of the acquired business are included in the accompanying condensed consolidated statements of operations from the date of acquisition and were not material. In addition, based on materiality, pro forma results are not presented.

Contingent Consideration

Set below are changes in the carrying value of contingent consideration for the nine months ended June 30, 2017 related to acquisitions:

Fair value of contingent consideration at September 30, 2016	$424,000
Fair value of contingent consideration in connection with above acquisition	192,000
Payments	—
Change in fair value	21,000
Fair value of contingent consideration at June 30, 2017	$637,000

Disposal of Gilman Branches

In January 2017, the Company sold two of its Gilman branches for notes in the aggregate principal amounts of $638,000 which, after allocating a portion of goodwill and unamortized intangibles of $305,000 and $203,000, respectively, resulted in a gain on disposal of $130,000. Principal and interest on the notes is payable monthly over 83 to 95 months with interest at 3% to 4% per annum.

NOTE 8. INTANGIBLE ASSETS

Intangibles consisted of the following at June 30, 2017 and September 30, 2016:

	June 30, 2017			
Intangible asset	Cost	Accumulated Amortization	Carrying Value	Estimated Useful Life (years)
Customer relationships	$6,867,000	$ 2,508,000	$4,359,000	3-10
Non-compete	296,000	296,000	—	2
Gilman brand name	760,000	—	760,000	Indefinite
	$7,923,000	$ 2,804,000	$5,119,000	

	September 30, 2016			
Intangible asset	Cost	Accumulated Amortization	Carrying Value	Estimated Useful Life (years)
Customer relationships	$6,969,000	$ 2,025,000	$4,944,000	7-10
Non-compete	296,000	296,000	—	2
Gilman brand name	760,000	—	760,000	Indefinite
	$8,025,000	$ 2,321,000	$5,704,000	

Amortization expense associated with intangible assets for the three months ended June 30, 2017 and 2016 was $197,000 and $180,000, respectively.

Amortization expense associated with intangible assets for the nine months ended June 30, 2017 and 2016 was $593,000 and $553,000, respectively.

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

Year ending September 30,	
Three months ending September 30, 2017	$197,000
2018	790,000
2019	790,000
2020	719,000
2021	719,000
Thereafter	1,144,000
Total	$4,359,000

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of June 30, 2017 and September 30, 2016 consist of the following:

	June 30, 2017	September 30, 2016
Legal	$836,000	$ 1,346,000
Audit	148,000	198,000
Telecommunications	196,000	209,000
Data services	450,000	425,000
Regulatory	661,000	444,000
Settlements	2,633,000	832,000
Contingent consideration payable	636,000	424,000
Deferred rent	177,000	65,000
Income taxes payable	927,000	—
Other	1,844,000	3,223,000
Total	$8,508,000	$ 7,166,000

NOTE 10. PER SHARE DATA

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

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2017	2016	2017	2016
Basic weighted-average shares	12,437,916	12,440,035	12,437,916	12,442,059
Effect of dilutive securities:				
Options	—	—	186	—
Unvested restricted stock units	—	—	21,732	—
Warrants	—	—	—	—
Diluted weighted-average shares	12,437,916	12,440,035	12,459,834	12,442,059

The following potential common share equivalents are not included in the above diluted computation because to do so would be anti-dilutive as the instruments are out of the money:

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2017	2016	2017	2016
Options	1,206,000	1,224,500	1,207,333	1,311,167
Warrants	12,459,474(a)	43,116	8,313,502(a)	43,116
Restricted stock units	312,500	—	—	—
	13,977,974	1,267,616	9,520,835	1,354,283

(a) As the warrants are out of the money, in the diluted computation, no adjustment is made to net income (loss) to eliminate the change in fair value of the warrants.

NOTE 11. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company's business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts for the Company on a fee basis. The Company permits the clearing firms to extend credit to its clientele secured by cash and securities in the client's account. The Company's exposure to credit risk associated with the non-performance by its customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company. The Company has agreed to indemnify the clearing brokers for losses they incur while extending credit to the Company's clients. It is the Company's policy to review, as necessary, the credit standing of its customers and counterparties. Amounts due from customers that are considered uncollectible by the clearing broker are charged back to the Company by the clearing broker when such amounts become determinable. Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction and/or (iii) charged to operations, based on the particular facts and circumstances.

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

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

NOTE 12. NEW ACCOUNTING GUIDANCE

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue From Contracts With Customers (Topic 606) which creates a single, principle-based model for revenue recognition and expands and improves disclosures about revenue. The new guidance is effective for the Company 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. The Company is currently evaluating the potential impact of this standard on its financial statements which, (1) for investment banking advisory arrangements may change the timing of revenue recognition depending on the number and nature of the performance obligations identified, (2) for underwriting expenses and costs of advisory services and related reimbursement revenue may need to be recognized on a gross basis, and (3) for costs to obtain a contract may need to be capitalized, amortized and reviewed regularly for impairment.

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. The new guidance was effective for the Company beginning October 1, 2016. The adoption did not have any impact on the Company’s financial statements.

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 the Company 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. The Company is currently assessing the impact that the adoption of ASU 2016-02 will have on its 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 the Company beginning October 1, 2017 for both interim and annual reporting periods. The Company is currently assessing the impact that the adoption of ASU 2016-09 will have on its 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 the Company beginning October 1, 2018 for both interim and annual periods. Early adoption is permitted. The ASU should be applied retrospectively to all periods presented. The Company does not anticipate that the adoption of ASU 2016-15 will have a material impact on its financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash”. ASU 2016-18 reduces the diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The standard is effective for the Company beginning October 1, 2018 for both interim and annual periods. Early adoption is permitted. The ASU should be applied retrospectively to all periods presented. The Company is currently assessing the impact that the adoption of ASU 2016-18 will have on its financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The amendments in this Update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The standard is effective for the Company beginning October 1, 2018 for both interim and annual periods. The Company is currently assessing the impact that the adoption of ASU 2017-01 will have on its financial statements.

In January 2017, FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment", which eliminates the second step of the previous FASB guidance for testing goodwill for impairment and is intended to reduce cost and complexity of goodwill impairment testing. The standard is effective for the Company beginning October 1, 2020 for both interim and annual periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact that the adoption of ASU 2017-04 will have on its financial statements.

In May 2017, the FASB issued ASU 2017-09, “Scope of Modification Accounting”. This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The standard is effective for the Company beginning October 1, 2018 for both interim and annual periods. Early adoption is permitted. The Company is currently assessing the impact that the adoption of ASU 2017-09 will have on its financial statements.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space in various states expiring at various dates through October 2026, and as of June 30, 2017, is committed under operating leases for future minimum lease payments as follows:

Fiscal Year Ending	Lease Payments
Three months ending September 30, 2017	$711,000
2018	3,138,000
2019	2,634,000
2020	2,415,000
2021	2,096,000
Thereafter	5,855,000
	$16,849,000

The total amount of rent payable under the leases is recognized on a straight line basis over the term of the leases. Rental expense under all operating leases, excluding sublease income, for the three months ended June 30, 2017 and 2016 was $929,000 and $961,000, respectively. Rental expense under all operating leases, excluding sublease income, for the nine months ended June 30, 2017 and 2016 was $2,854,000 and $2,880,000, respectively. Sublease income under all operating subleases for the three months ended June 30, 2017 and 2016 was approximately $2,000 and $35,000, respectively. Sublease income under all operating subleases for the nine months ended June 30, 2017 and 2016 was approximately $77,000 and $106,000, respectively.

As of June 30, 2017, the Company and its subsidiaries had three outstanding letters of credit, which have been issued in the maximum amount of $1,380,000 as security for property leases, and which are collateralized by the restricted cash as reflected in the condensed consolidated statements of financial condition.

Litigation and Regulatory Matters

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

Liabilities for potential losses from complaints, legal actions, government investigations and proceedings are established where the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, management bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect the Company’s estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, management cannot predict with certainty the eventual loss or range of loss related to such matters. At June 30, 2017 and September 30, 2016, the Company accrued approximately $2,633,000 and $832,000, respectively. These amounts are included in accounts payable and accrued expenses in the condensed consolidated statements of financial condition. During the three and nine months ended June 30, 2017, the Company charged $2,326,000 and $3,322,000, respectively, to operations with respect to such matters and during the three and nine months ended June 30, 2016, the Company charged $362,000 and $525,000, respectively, to operations, which is included in other administrative expenses. The Company has included in "Professional fees" litigation and FINRA related expenses of $430,000 and $346,000 for the three months ended June 30, 2017 and 2016, respectively and $1,229,000 and $799,000 for the nine months ended June 30, 2017 and 2016, respectively.

NOTE 14. NET CAPITAL REQUIREMENTS

National Securities is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) (the "Rule"), which, among other things, requires the maintenance of minimum net capital. At June 30, 2017, National Securities had net capital of $10,464,721 which was $10,214,721 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 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 June 30, 2017, vFinance Investments had net capital of $1,534,147 which was $534,147 in excess of its required net capital of $1,000,000. vFinance Investments' ratio of aggregate indebtedness to net capital was 0.8 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.

Advances, dividend payments and other equity withdrawals from the Company's 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 the Company.

NOTE 15. STOCKHOLDERS' EQUITY

Shares Authorized

On January 26, 2017, the stockholders of the Company approved (i) to amend the Company's certificate of incorporation to decrease the number of authorized shares of its common stock from 150,000,000 shares to 75,000,000 shares and (ii) to amend the Company's 2013 Omnibus Incentive Plan to increase the number of shares of its common stock authorized for issuance by 650,000.

Stock Options

Information with respect to stock option activity during the nine months ended June 30, 2017 follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Grant-Date Fair Value Per Share	Weighted Average Remaining Contractual term (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2016	1,221,500	$ 6.51	$ 1.22	3.31	$ —
Forfeited	(15,500)	$ 4.42	$ 1.99		$ —
Outstanding at June 30, 2017	1,206,000	$ 6.54	$ 1.21	2.54	$ —
Vested and exercisable at June 30, 2017	1,206,000	$ 6.54	$ 1.21	2.54	$ —

As of September 30, 2016, all compensation expense associated with the grants of stock options had been recognized. During the three and nine months ended June 30, 2016, the Company recognized compensation expense of $26,000 and $125,000, respectively, related to stock options.

Warrants

The following table summarizes information about warrant activity during the nine months ended June 30, 2017:

	Warrants	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Outstanding at Outstanding at September 30, 2016	23,029	$ 5.00	0.75
Issued (Note 19)	12,437,916	$ 3.25	4.56
Forfeited or expired	(1,471)	$ 5.00	
Outstanding and exercisable at June 30, 2017	12,459,474	$ 3.25	4.55

Restricted Stock Units

In January 2017, the Company granted 625,000 restricted stock units ("RSU") to the Company's Chief Executive Officer. One RSU gives the right to one share of the Company’s common stock. RSUs shall vest as follows: (1) 312,500 shall equally vest in 25% increments on the anniversary date of the grant date over the next four years; (2) 52,083 shall vest based upon the Company first achieving a market capitalization of $75,000,000 for 30 consecutive trading days; 52,083 shall vest based upon the Company first achieving a market capitalization of $100,000,000 for 30 consecutive trading days; 52,084 shall vest based upon the Company first achieving a market capitalization of $150,000,000 for 30 consecutive trading days; and (3) 52,083 shall vest based upon the Company’s EBITDA first being equal to or greater than $10,000,000 at the end of a fiscal year; 52,083 shall vest based upon the Company’s EBITDA first being equal to or greater than $15,000,000 at the end of a fiscal year; 52,084 shall vest based upon the Company’s EBITDA first being equal to or greater than $25,000,000 at the end of a fiscal year.

RSUs that vest based on service and performance are measured based on the fair market values of the underlying stock on the date of grant. The Company used a Lattice model to determine the fair value of the RSUs with a market condition.

For the three and nine months ended June 30, 2017, the Company recognized compensation expense of $129,000 and $312,000, respectively, related to RSUs. At June 30, 2017, unrecognized compensation with respect to RSUs amounted to $1,150,000, assuming all performance-based compensation will vest.

In July 2017, the Company granted 625,000 RSUs to certain officers and senior managers of which 312,500 shall vest over four years, 156,250 shall vest based on the Company achieving certain performance criteria and 156,250 shall vest based on the Company achieving certain market criteria.

NOTE 16. SHARE REPURCHASE

In August 2015, the Company’s Board of Directors authorized the repurchase of up to $2 million of the Company’s common stock. Share repurchases, if any, will be made using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The Company's Board did not stipulate an expiration date for this repurchase and the purchase decisions are at the discretion of the Company's management. During the three and nine months ended June 30, 2017, the Company did not repurchase any shares. During the nine months ended June 30, 2016, the Company repurchased 33,933 common shares at a cost of approximately $86,000.

NOTE 17. INCOME TAXES

The Company files a consolidated federal income tax return and certain combined state and local income tax returns with its subsidiaries. Income taxes for the three and nine month periods ended June 30, 2017 and 2016 is based on the estimated annual effective tax rate. Each quarter the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as necessary.

The effective tax rate for the three and nine month periods ended June 30, 2017 and 2016 differs from the federal statutory income tax rate principally due to non-deductible expenses, state and local income taxes and non-taxable changes in the fair value of warrants. Further, the three month period in 2017 reflects a cumulation adjustment to reflect a reduction in the estimated annual effective tax rate.

At June 30, 2017, the Company's net deferred tax asset is principally comprised of net operating loss carryforwards. Management believes that is more likely than not that its deferred tax assets will be realized and, accordingly, has not provided a valuation allowance against such amount.

NOTE 18. SEGMENT INFORMATION

The Company has two reportable segments. The brokerage and advisory services segment includes broker-dealer and investment advisory services, the sale of insurance products and licensed mortgage brokerage services provided by the Broker-Dealer Subsidiaries, NAM, National Insurance, Prime Financial and GC. The tax and accounting services segment includes tax preparation and accounting services provided by Gilman.

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

Segment information for the three and nine months ended June 30, 2017 and 2016 is as follows:

	Brokerage and Advisory Services	Tax and Accounting Services	Corporate	Total
Three Months Ended June 30, 2017				
Revenues	$45,520,000	$2,527,000	$ —	$48,047,000
Pre-tax income (loss)	820,000	596,000	(1,478,000) (a)	(62,000)
Assets	46,802,000	3,536,000	14,282,000 (b)	64,620,000
Depreciation and amortization	155,000	44,000	89,000	288,000
Interest	5,000	—	—	5,000
Capital expenditures	30,000	7,000	915,000	952,000

2016				
Revenues	$43,956,000	$2,386,000	$ —	$46,342,000
Pre-tax income (loss)	1,741,000	198,000	(2,224,000) (c)	(285,000)
Assets	40,798,000	3,006,000	18,469,000 (b)	62,273,000
Depreciation and amortization	185,000	44,000	73,000	302,000
Interest	—	—	13,000	13,000
Capital expenditures	48,000	—	155,000	203,000

	Brokerage and Advisory Services	Tax and Accounting Services	Corporate		Total
Nine Months Ended June 30,					
2017					
Revenues	$137,973,000	$6,527,000	$ —		$144,500,000
Pre-tax income	7,394,000	983,000	2,909,000	(d)	11,286,000
Assets	46,802,000	3,536,000	14,282,000	(b)	64,620,000
Depreciation and amortization	468,000	137,000	266,000		871,000
Interest	13,000	—	—		13,000
Capital expenditures	57,000	71,000	1,178,000		1,306,000
2016					
Revenues	$120,775,000	$7,222,000	$ —		$127,997,000
Pre-tax income (loss)	3,173,000	399,000	(3,885,000)	(c)	(313,000)
Assets	40,798,000	3,006,000	18,469,000	(b)	62,273,000
Depreciation and amortization	569,000	132,000	197,000		898,000
Interest	1,000	—	15,000		16,000
Capital expenditures	53,000	28,000	389,000		470,000

(a) Consists of fair value loss on warrants and operating expenses not allocated to reportable segments.
(b) Consists principally of deferred tax asset.
(c) Consists of operating expenses not allocated to reportable segments.
(d) Consists of fair value gain on warrants offset by operating expenses not allocated to reportable segments.

NOTE 19. ACQUISITION OF CONTROLLING INTEREST IN THE COMPANY

On September 12, 2016, FBIO Acquisition, Inc. (“FBIO Acquisition”), a wholly-owned subsidiary of Fortress, completed a tender offer (the “Offer”) for all outstanding shares of the 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 an Agreement and Plan of Merger dated as of April 27, 2016 (as amended, the “Merger Agreement”) among the Company, Fortress and FBIO Acquisition. The Offer expired on September 9, 2016, and 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 the Company's issued and outstanding shares of common stock immediately following the completion of the Offer (in each case, without giving effect to the issuance or exercise of the Dividend 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.

Dividend Warrants

In accordance with the Merger Agreement, since less than 80% of the Company's issued and outstanding shares of common stock were tendered, the Com