NATIONAL HOLDINGS CORP
Form 10-Q
February 14, 2014

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 December 31, 2013 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.)

410 Park Ave, 14th Floor, New York, NY 10022

(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 or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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 February 14, 2014 there were 123,246,888 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION

FORM 10-Q

QUARTERLY PERIOD ENDED DECEMBER 31, 2013

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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 (the Reform Act). 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 or statements 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 statements.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	December 31, 2013	September 30, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$15,643,000	$19,985,000
Restricted cash	92,000	92,000
Deposits with clearing organizations	1,387,000	1,107,000
Receivables from broker dealers and clearing organizations	2,799,000	4,296,000
Other receivables	3,044,000	1,049,000
Advances to registered representatives - Current portion, net of allowance for uncollectible accounts	647,000	384,000
Securities owned: marketable – at market value	427,000	428,000
Securities owned: nonmarketable – at fair value	30,000	39,000
Prepaid expenes	1,425,000	764,000
Total Current Assets	**25,494,000**	**28,144,000**
Advances to registered representatives - Long term portion	706,000	427,000
Fixed assets, net of accumulated depreciation	853,000	447,000
Intangible assets, net	9,982,000	-
Goodwill	4,464,000	-
Other assets	671,000	493,000
Total Assets	**$42,170,000**	**$29,511,000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable, accrued expenses and other liabilities	$16,375,000	$13,494,000
Payable to broker dealers and clearing organizations	13,000	13,000
Securities sold, but not yet purchased, at market value	16,000	15,000
Total Current Liabilities	**16,404,000**	**13,522,000**
Accrued expenses and other liabilities - Long term portion	294,000	192,000
Total Liabilities	**16,698,000**	**13,714,000**

National Holdings Corporation Stockholders' Equity		
Common stock, $.02 par value, 150,000,000 shares authorized; 123,246,888 shares issued and outstanding at December 31, 2013 and 100,580,203 shares issued and outstanding at September 30, 2013	2,465,000	2,012,000
Additional paid-in capital	76,517,000	67,982,000
Accumulated deficit	(53,525,000)	(54,212,000)
Total National Holdings Corporation Stockholders' Equity	25,457,000	15,782,000
Non Controlling Interest	15,000	15,000
Total Stockholders' Equity	25,472,000	15,797,000
Total Liabilities and Stockholders' Equity	**$42,170,000**	**$29,511,000**

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Month Period Ended December 31,	
	2013	**2012**
Revenues		
Commissions	$27,296,000	$16,041,000
Principal transactions	3,158,000	2,601,000
Investment banking fees	3,893,000	2,055,000
Interest and dividends	933,000	1,047,000
Transfer fees and clearing services	2,316,000	2,008,000
Investment advisory fees	3,181,000	2,419,000
Tax preparation and accounting fees	538,000	-
Other	478,000	275,000
Total Revenues	**41,793,000**	**26,446,000**
Operating Expenses		
Commissions, compensation and fees	34,933,000	22,835,000
Clearing fees	796,000	422,000
Communications	1,140,000	1,119,000
Occupancy, equipment and other admin expenses	2,590,000	770,000
Professional fees	1,015,000	771,000
Interest	16,000	165,000
Taxes, licenses and registration	508,000	408,000
Total Operating Expenses	**40,998,000**	**26,490,000**
Total provision for income taxes	108,000	-
Net Income (Loss) before non-controlling interest	**687,000**	**(44,000)**
Net loss attributable to noncontrolling interest	-	(3,000)
Net Income (Loss) attributable to common stockholders	**$687,000**	**$(41,000)**
Net Income (loss) attributable to comon stockholders - Basic	**$0.01**	**$(0.00)**
Net Income (loss) attributable to comon stockholders - Diluted	**$0.01**	**$(0.00)**
Weighted number of shares outstanding - Basic	**119,797,610**	**26,567,193**
Weighted number of shares outstanding - Diluted	**121,269,503**	**26,567,193**

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

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NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013 AND THE THREE MONTHS ENDED DECEMBER 31, 2013

	Preferred Stock C		Preferred Stock D		Common Stock		Additional Paid-in	Accumulated
	Shares	$	Shares	$	Shares	$	Capital	Deficit
BALANCE, September 30, 2012	34,169	$ 2,551,000	60,000	$ 3,605,000	26,555,572	$531,000	$46,184,000	$(55,780,000)
Issuance of shares of common stock pursuant to the conversion of Series C Preferred Stock	(34,169)	(2,551,000)	-	-	3,416,691	68,000	2,483,000	-
Issuance of shares of common stock pursuant to the conversion of Series D Preferred Stock	-	-	(60,000)	(3,605,000)	6,000,000	120,000	3,485,000	-
Issuance of shares of common stock pursuant to the conversion of Series E Subordinated Note	-	-	-	-	10,000,000	200,000	4,800,000	-

Issuance of shares of common stock pursuant to the conversion of certain outstanding Warrants	-	-	-	-	12,951,195	259,000	(259,000)	-
Issuance of shares of common stock pursuant to Private Placement	-	-	-	-	40,034,928	801,000	10,777,000	-
Issuance of shares of common stock pursuant to 2013 Omnibus Stock Option Plan	-	-	-	-	621,817	13,000	227,000	-
Issuance of shares of common stock pursuant to satisfy certain liabilities	-	-	-	-	1,000,000	20,000	293,000	-
Accrue for distribution of remaining equity to non-controlling equity holder	-	-	-	-	-	-	(147,000)	-
Fair value of stock options	-	-	-	-	-	-	139,000	-
Net income (loss)	-	-	-	-	-	-	-	1,568,000
BALANCE, September 30, 2013	-	-	-	-	100,580,203	$2,012,000	$67,982,000	$(54,212,000)
Issuance of shares of common stock pursuant to the					22,666,685	453,000	8,387,000	-

acquisition of Gilman & Ciocia						
Fair value of stock options and restricted stock units			-	-	148,000	-
Net income (loss)			-	-	-	687,000
BALANCE, December 31, 2013	$	$	123,246,888	$2,465,000	$76,517,000	$(53,525,000)

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Month Period Ended December 31, 2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$687,000	$(41,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	534,000	294,000
Amortization of advances to registered representatives	52,000	60,000
Compensatory element of common stock option issuances and restricted stock units	210,000	-
Net realized and unrealized gain on securities	(338,000)	(18,000)
Non-controlling interest	-	(3,000)
Changes in assets and liabilities		
Deposits with clearing organizations	(8,000)	-
Receivables from broker-dealers and clearing organizations	3,319,000	1,060,000
Other receivables	(1,969,000)	(194,000)
Advances to registered representatives	178,000	(3,000)
Securities owned: marketable - at market value	340,000	61,000
Securities owned: non-marketable - at fair value	9,000	(426,000)
Prepaid expenses and other assets	(280,000)	(211,000)
Accounts payable, accrued expenses and other liabilities	(3,307,000)	(951,000)
Payable to broker dealers and clearing organizations	-	(85,000)
Securities sold, but not yet purchased, at market	1,000	2,000
Net cash used in operating activities	**(572,000)**	**(455,000)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition-related cash acquired	1,654,000	-
Purchase of fixed assets	(24,000)	(35,000)
Payment of certain liabilities of Gilman & Ciocia	(5,400,000)	-
Net cash used in investing activities	**(3,770,000)**	**(35,000)**
NET DECREASE IN CASH	**(4,342,000)**	**(490,000)**
CASH BALANCE		
Beginning of the period	**19,985,000**	**7,934,000**
End of the period	**$15,643,000**	**$7,444,000**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		

Interest	$16,000	$166,000
Income taxes	$-	$-
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired and liabilities assumed pursuant to acquisition:		
Tangible assets acquired	$5,587,000	$-
Identifiable intangible assets acquired	$10,417,000	$-
Goodwill	$4,464,000	$-
Liabilities assumed	$11,628,000	$-
Stock issued pursuant to Gilman Ciocia acquisition	$8,840,000	$-

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of National Holdings Corporation ("National" or the "Company") have been prepared in accordance with generally accepted accounting principles in the United States ("US 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 consolidated financial statements as of December 31, 2013 and for the three months ended December 31, 2013 and 2012 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 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, 2013.

<u>Merger</u>

On October 15, 2013, we completed a merger with Gilman Ciocia pursuant to the terms and conditions of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 20, 2013, by and among us, National Acquisition Corp., a Delaware corporation and our wholly-owned subsidiary ("Merger Sub"), and Gilman, Merger Sub was merged with and into Gilman, with Gilman surviving the merger and becoming a wholly-owned subsidiary of the Company.

Pursuant to the Merger Agreement, the Company issued to the Gilman stockholders approximately 22.66 million shares of its common stock in exchange for all outstanding shares of Gilman common stock.

NOTE 2. CONSOLIDATION

The consolidated financial statements include the accounts of National and its wholly owned subsidiaries. National operates primarily through its wholly owned subsidiaries, National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”) and Gilman for the period October 16, 2013 through December 31, 2013. In conjunction with the Merger with Gilman, the Company added Prime Capital Services, Inc. (“Prime”) to its portfolio of Broker Dealer subsidiaries, however, in November, National Securities and Prime received approval from FINRA allowing for a mass transfer of its brokers and customer accounts to National Securities. This transfer was completed on November 22, 2013. This transfer was done to reduce overhead and consolidate the administrative and regulatory structures of the two entities. The Company filed a Broker Dealer withdrawal for Prime in January 2014.The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington.

Through its Broker-Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 100,000 retail, high net worth individuals 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 approximately 6,000 micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Its Broker-Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations on a fully disclosed basis. They are registered with the Securities and Exchange Commission ("SEC"), are members of the FINRA, the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA").

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

The Company's wholly owned subsidiary, National Insurance Corporation, a Washington corporation ("National Insurance"), provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities.

The Company's wholly-owned subsidiary Gilman Ciocia, Inc., a Delaware corporation, provides federal, state and local tax preparation services to individuals, predominantly in the middle and upper income tax brackets and accounting services to small and midsize companies.

The Company's wholly owned subsidiary, Prime Financial Services, a Delaware corporation ("Prime Financial "), provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities.

The Company's wholly owned subsidiary, Asset and Financial Planning LTD, a New York corporation ("AFP"), is a federally-registered investment adviser providing asset management advisory services to high net worth clients for a fee based upon a percentage of assets managed.

The Company's wholly owned subsidiary, GC Capital Corporation, a Washington corporation ("GC"), provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

Company has been named as a defendant in various customer arbitrations. These claims result from the actions of brokers affiliated with the Company. The Company may have established liabilities for potential losses from such complaints, legal actions, government investigations, and proceedings where necessary in accordance with GAAP. In establishing these liabilities, management uses judgment to determine the probability that losses will be incurred and a reasonable estimate of the amount of losses. In making these decisions, management bases its judgments on our knowledge of the situations, consultations with legal counsel and our 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 our 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, we cannot predict with certainty the eventual loss or range of loss related to such matters. If managements judgment proves to be incorrect, our liability for losses and contingencies may not accurately reflect actual losses that result from these actions, which could materially affect results in the period other expenses are ultimately determined. As of December 31, 2013 and September 30, 2013, the Company accrued approximately $312,000 and $250,000, respectively for these matters. These claims may be covered by our errors and omissions insurance policy. While we will vigorously defend ourselves in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on our financial position.

Revenue Recognition

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

Customer security transactions and the related commission income and expense are recorded on a trade date basis. Customers who are financing their transaction on margin are charged interest. The Company’s margin requirements are in accordance with the terms and conditions mandated by its clearing firms, National Financial Services LLC (“NFS”), COR Clearing LLC, formerly known as Legent Clearing (“COR”), ICBC, formerly known as Fortis Securities, LLC (“ICBC”), Rosenthal Collins Group, LLC. (“Rosenthal”), and R.J. O’Brien (“RJO”) and Southwest Securities. The interest is billed on the average daily balance of the margin account.

Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing financial advisory services. Investment banking management fees are recognized on the offering date, sales concessions on the trade date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Principal transactions result from mark-ups and mark-downs in securities transactions entered into for the account of the Company. Some of these transactions may involve the Company taking a position in securities that may expose the Company to losses. These revenues are recorded on a trade date basis.

Clearing and other brokerage income are fees charged to the broker on customer’s security transactions, and are recognized as of the trade date.

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

Fees associated with tax return preparation and accounting services are recognized when the services have been provided. Such fees are agreed to by the customers prior to the provision of the services and are billed when the services have been provided, which may occur daily.

Other revenue consists of miscellaneous fees charged to both customer and our independent contractors for services rendered.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the leases. Maintenance and repairs are charged to expense as incurred; costs of major additions and betterments that extend the useful life of the asset are capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statements carrying amounts and the tax basis of assets and liabilities, using the effective tax rates in the years in which the differences are expected to reverse. A valuation allowance related to deferred tax assets is also recorded when it is more likely than not that some or all of the deferred tax asset may not be realized.

Fair Value of Financial Instruments

The Company uses FASB Accounting Standards Codification 820-Pursuant to Fair Value Measurements and Disclosures, or ASC 820, for assets and liabilities measured at fair value on a recurring basis which establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

ASC 820 defines fair value as 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. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of December 31, 2013, and September 30, 2013, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the fair value hierarchy.

The Company had securities owned- nonmarketable including warrants it received as partial compensation from clients for investment banking services as Level 2 assets as of December 31, 2013 and September 30, 2013.

The warrants issued by the clients to the Company as partial compensation for banking services are not readily convertible to cash pursuant to ASC 605-10-20. Accordingly, they are classified as non-marketable securities. Once the securities underlying the warrants have quoted prices available in an active market that can rapidly absorb the quantity held by the Company without significantly affecting the price, the Company attributes a value to the warrants using the respective price of the warrants and the quoted prices of the securities underlying the warrants and other key inputs.

The Company relies on ASC 940-820 to determine the fair value of its marketable and nonmarketable securities. The Company evaluates the fair value of such instruments based on the following factors:

Financial standing, economic conditions, and refinancing risk of the issuer, cost at the date of purchase, liquidity of the market of the securities, if any, reported prices, pricing by other dealer in the issuer or similar securities.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment at least once a year or earlier if circumstances and situations change such that there is an indication that the carrying amounts may not be recovered, in accordance with professional standards. In such circumstances, the Company will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will recognize an impairment loss to adjust to the fair value of the asset.

The Company first assesses qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. If, based on its qualitative assessment, the Company believes that it is more likely than not that its fair value is less that its carrying amount, it will calculate the fair value of its reporting unit from which the goodwill is derived. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is other than its carrying value, the Company performs the second step of the impairment process to measure the amount of the impairment loss, if any. Pursuant to the second step, the reporting unit's fair value is allocated to all of its assets and liabilities in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit is less than the its carrying value, the difference is recorded as an impairment loss.

The Company reviews purchased intangible assets with a finite life for impairment at least once a year or earlier if circumstances and situations change such that there is an indication that the carrying amounts may not be recovered, In such circumstances, the Company will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will recognize an impairment loss to adjust to the fair value of the asset.

Common Stock Purchase Warrants

The Company accounts for the issuance of common stock purchase warrants issued in connection with capital financing transactions in accordance with professional standards for "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". In accordance with professional standards, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for "Accounting for Derivative Instruments and Hedging Activities".

Professional standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument".

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when "Accounting for Convertible Securities with Beneficial Conversion Features," as those professional standards pertain to "Certain Convertible Instruments." Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity’s control could require net cash settlement, then the contract shall be classified as an asset or a liability.

The Company evaluated the terms of the Series C and D Preferred Stock at September 30, 2012 to determine whether they should be classified as a liability, temporary equity, or permanent equity and whether their conversion options should be bifurcated and accounted for as derivatives. The terms of their Series C and D provide for the following among other things: they are convertible at the holder’s option to a fixed number of shares of common stock of the Company at the classification dates and they are not redeemable. The characteristics of the common stock that is issuable upon a holder’s exercise of the conversion option of the convertible preferred stock are deemed to be clearly and closely related to the characteristics of the Company’s common stock. Additionally, the Company’s conversion options, if free standing, would not be considered derivatives subject to the accounting guidelines prescribed in accordance with professional standards. As of December 31, 2013 the Company had no convertible debt instruments outstanding.

Net Income (Loss) per Common Share

Basic net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding. Diluted net loss per share is computed on the basis of the weighted average number of common shares outstanding plus the potential dilution that could occur if certain securities or other contracts to issue common shares were exercised or converted.

	Three Month Period Ended	
	December 31,	
	2013	2012
Numerator:		
Net income (loss)	$687,000	$(41,000)
Denominator:		
Denominator for basic earnings per share--weighted average shares	119,797,610	26,567,193
Effect of dilutive securities:		
Assumed conversion of dilutive options	228,261	-
Assumed conversion of unvested restricted stock units	1,243,632	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	121,269,503	26,567,193
Income (Loss) per share:		
Net income (loss) available to common stockholders		
Basic	$0.01	$(0.00)
Diluted	$0.01	$(0.00)

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The weighted-average anti-dilutive common share equivalents are as follows:

	December 31,	
	2013	2012
Series C Preferred Stock	-	3,416,692
Series D Preferred Stock	-	6,000,000
Convertible notes payable	-	11,125,000
Options	12,021,739	1,130,000
Warrants	896,755	14,467,941
	12,918,494	36,139,633

The anti-dilutive common shares outstanding at December 31, 2013 and 2012 are as follows:

	December 31,	
	2013	2012
Series A Preferred Stock	-	-
Series C Preferred Stock	-	3,416,692
Series D Preferred Stock	-	6,000,000
Convertible notes payable	-	11,125,000
Options	12,021,739	1,130,000
Warrants	896,755	14,467,941
	12,918,494	36,139,633

Stock-Based Compensation

ASC Topic 718 accounting for “Share Based Payment” addresses all forms of share based payment (“SBP”) awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under Topic 718, SBP awards result in a charge to operations measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period.

The Company has historically used the Black-Scholes option valuation model to estimate the fair value of any options granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. For example, the expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted. Options issued under the Company's option plans have characteristics that differ from traded options.

Market Risk

The investments of the Company are subject to normal market fluctuations and other risks inherent in investing in securities and there can be no assurance that any appreciation in value will occur. The value of investments can fall as well as rise and investors may not realize the amount that they invest.

Entering into Short Positions

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, although this potential loss is mitigated in the case of debt securities by the nature of such securities.

Concentrations of Credit Risk

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company’s business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company primarily uses clearing brokers to process transactions and maintain customer accounts on a fee basis for the Company. The Company uses three clearing brokers for substantially all of its business. 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 included in other receivables in the accompanying consolidated statements of financial condition, and/or (iii) charged as an expense in the accompanying consolidated statements of operations, based on the particular facts and circumstances.

The Company maintains cash with major financial institutions. All accounts are insured up to $250,000 in aggregate, by company and by financial institution. To reduce its risk associated with the failure of such financial institutions, the Company periodically evaluates the credit quality of the counterparties in which it holds deposits. As a result of this evaluation, the Company believes it is not exposed to any significant credit risks for cash.

Other Receivables

The Company extends unsecured credit in the normal course of business to certain business clients and unconsolidated affiliates. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual relationship. The Company periodically receives payment from various clients for fees earned from investment banking deals, tax preparation fees and other transactions. These amounts are usually collected within sixty to ninety days and as of December 31, 2013 the Company had an allowance for doubtful accounts of $261,000, primarily attributable to the tax preparation fees. Additionally, other amounts due from unrelated parties are assessed and usually collected within thirty to sixty days.

Advances to Registered Representatives

Advances are given to certain registered representatives as an incentive for their affiliation with the Broker-Dealer Subsidiaries. The representative signs an independent contractor agreement with the Broker-Dealer Subsidiaries for a specified term, typically a three-year period. The advance is then amortized on a straight-line basis or based on a percentage of production over the life of the broker’s agreement with the Broker-Dealer Subsidiaries, and is included in commission expense in the accompanying consolidated statements of operations. In the event a representative’s affiliation terminates prior to the fulfillment of their contract, the representative is required to repay the unamortized balance. At December 31, and September 30, 2013 there was approximately $0 and $13,000, respectively, of allowance for uncollectable amounts associated with these receivables.

Securities Owned

Marketable securities which consist of publicly traded unrestricted common stock and bonds are valued at the closing price on the valuation date. Non-marketable securities which consist partly of restricted common stock and of non-tradable warrants exercisable into freely trading common stock of public companies are carried at market value or as required, at fair value as determined in good faith by management.

Other Assets

Other assets consist primarily of prepaid expenses and lease deposits.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. ASC 450-10, Accounting for Contingencies, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our results of operations, financial position, or our cash flows.

Reclassifications

Certain items in the fiscal 2013 financial statements have been reclassified to conform to the presentation in the fiscal 2014 financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

Recently Adopted Accounting Guidance

In July 2012, the FASB issued ASU No. 2012-02, Testing indefinite-lived intangible assets for impairment. The update aims to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. This guidance was effective for the Company beginning on October 1, 2012. The adoption of this accounting guidance did not have a material impact on the Company’s financial statements.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about offsetting assets and liabilities, an accounting update that creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the statement of financial condition or subject to an enforceable master netting arrangement or similar arrangement. The disclosure requirements are effective for the Company beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company's consolidated statements of income or financial condition.

In September 2011, the FASB issued Accounting Standard Update ("ASU") No. 2011-08, Testing Goodwill for Impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The new guidance was effective for the Company beginning October 1, 2012 and did not have material impact on the Company's financial statements upon adoption.

Recent Accounting Guidance Not Yet Adopted

In July 2013, the FASB Issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The Update provides guidance for the presentation of an unrecognized tax benefit when, among other things, a net operating loss carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

The new guidance will be effective for the Company beginning January 1, 2014. Earlier adoption is permitted. The Company believes that the new guidance will not have any material impact on the Company's financial statements upon adoption.

In February 2013, the FASB issued Accounting Standard Update ("ASU") No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The Update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). The guidance in this Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The new guidance became effective for the Company beginning January 1, 2014. The Company believes that the new guidance will not have any material impact on the Company's financial statements.

NOTE 4- BUSINESS COMBINATION

On October 15, 2013, the Company completed its acquisition of all of the issued and outstanding shares of Gilman. Pursuant to the acquisition agreements, the Company issued 22,666,685 shares of its common stock to the stockholders of Gilman. Additionally, the Company satisfied the obligations pursuant to certain liabilities of Gilman in consideration of $5,400,000. In August 2013, the Company issued 10,583,330 shares of its common stock pursuant to a private placement which generated net proceeds of $3,016,000 to partially finance the cash consideration of $5,400,000. Additionally, the Company granted 1,950,000 options to certain employees of Gilman whose employment agreements were assumed by the Company.

The acquisition of Gilman provides a platform to the Company to expand its existing service in the financial planning arena and adds tax return preparation services. The acquisition also increased substantially the number of representatives and new customers through which the Company can market its services.

The acquisition of Gilman has been accounted for as a business combination. Effective October 16, 2013, the results of Gilman's operations are included in the Company's consolidated financial statements.

The following tables summarizes the consideration transferred to acquire Gilman and the amounts of identifiable assets acquired and liabilities assumed based on the estimated fair value at the acquisition date:

Issuance of 22,666,685 shares of common stock to Gilman Stockholders	$8,840,000
Cash to satisfy obligations pursuant to certain liabilities of Gilman	5,400,000
Total Consideration	$14,240,000

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed:

Current assets	$4,833,000
Fixed assets	482,000
Other assets	272,000
Current liabilities	(6,000,000)
Long-term liabilities	(5,628,000)
Net tangible liabilities assumed	(6,041,000)
Liabilities satisfied at closing	5,400,000
Intangible assets	10,417,000
Goodwill	4,464,000
Total consideration	$14,240,000

The aforementioned allocation to identifiable intangible assets and goodwill is preliminary and the Company is still evaluating the allocation of the purchase price among certain intangible assets and goodwill. The Company anticipates that it will complete its analysis of the allocation of the purchase price among such assets within the next three months and that the final allocation will vary from the preliminary allocation. The goodwill recognized is attributable to expected synergies and other benefits that the Company believes will result from combining its operations of Gilman’s. The intangible assets recognized are primarily attributable to expected increased margins that the Company believes will result from Gilman’s existing customer relationships and increased margins from financial planning and tax preparation services that the Company will offer to its existing clients.

The following table presents the intangible assets subject to amortization and the carrying amount as of December 31, 2013 and the respective estimated useful lives:

Intangible asset	Preliminary Fair Value	Accumulated Amortization	Carrying Value	Estimated Useful Life (years)
Customer Relationships	$8,333,600	$ (347,000)	$7,986,600	5
Brand	2,083,400	(88,000)	1,995,400	5
	$10,417,000	$ (435,000)	$9,982,000	

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

Year ended September 30,	
2014	$1,650,000
2015	2,083,000
2016	2,083,000
2017	2,083,000
2018	2,083,000
Thereafter	0

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition occurred at October 1, 2012:

	(Unaudited)	
	Three Month Period Ended December 31,	
	2013	2012
Revenues	$43,861,000	$34,601,000
Net Income (Loss)	$199,000	$(1,541,000)
Basic earnings (loss) per share	$0.00	$(0.02)
Diluted earnings (loss) per share	$0.00	$(0.02)

These amounts have been calculated after applying the Company's accounting policies and adjusting the results to reflect, among other things, 1) additional amortization that would have been charged assuming the fair value adjustments to amortizable intangible assets had been applied, 2) additional compensation related to the grant of 1,950,000 stock options to certain employees of Gilman whose employment agreement was assumed by the Company, and 3) the shares issued by the Company in August 2013 to partially fund the $5,400,000 cash consideration. These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have been resulted had the acquisition occurred on the date indicated or that may result in the future.

The amount of revenues and income (loss) of Gilman since the acquisition date included in the statement of operations for the three months ended December 31, 2013 are as follows:

Revenues	$6,880,000
Net loss	$(547,000)

NOTE 5. CLEARING AGREEMENTS

National Securities Corporation and vFinance Investments, Inc. have separate but coterminous clearing agreements with National Financial Services, LLC with a termination date of February 1, 2015. The clearing agreement includes a termination fee if either broker dealer terminates the agreement without cause. The Broker Dealer Subsidiaries currently have clearing agreements with NFS, Legent, ICBC, Rosenthal, RJO and Southwest Securities.

NOTE 6. BROKER-DEALERS AND CLEARING ORGANIZATIONS RECEIVABLES AND PAYABLES

At December 31, 2013 and September 30, 2013, the receivables of $2,799,000 and $4,296,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions. At December 31, 2013 and September 30, 2013, the amounts payable to broker dealers and clearing organizations of $13,000 and $13,000, respectively, represent amounts owed to clearing firms or other broker dealers for fees on transactions and payables to other broker dealers.

NOTE 7. OTHER RECEIVABLES

At December 31, 2013 and September 30, 2013, the Company had other receivables net of allowance for uncollectable accounts of $3,044,000 and $1,049,000, respectively, primarily from underwriting and management fees from investment banking transactions that the Company participated in.

NOTE 8. ADVANCES TO REGISTERED REPRESENTATIVES

An analysis of advances to registered representatives for the quarter ended December 31, 2013 is as follows:

	Advances to Registered Representative
Balance, September 30, 2013	$ 811,000
Advances	803,000
Amortization or repayment of advances	(261,000)
Balance, December 31, 2013	$ 1,353,000

There were no unamortized advances outstanding attributable to registered representatives who ended their affiliation with National Securities prior to the fulfillment of their obligation.

NOTE 9. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED AT FAIR VALUE

The following tables show the fair market values of securities owned by the Company, and securities sold but not yet purchased by the Company, as of December 31, 2013 and September 30, 2013:

Fair Value Measurements

As of December 31, 2013

Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$243,000	-	-	$243,000
Mutual funds	50,000			50,000
Fixed income securities	134,000	-	-	134,000
Restricted stock and warrants	-	30,000	-	30,000
	$427,000	$30,000	$ -	$457,000

Securities sold, but not yet purchased at fair value	Level 1	Level 2	Level 3	Total
Fixed income securities	$16,000	-	-	$16,000
	$16,000	$ -	$ -	$16,000

As of September 30, 2013

Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$428,000	-	-	$428,000
Restricted stock and warrants	-	39,000	-	39,000
	$428,000	$39,000	$ -	$467,000

Securities sold, but not yet purchased at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$15,000	-	-	$15,000
	$15,000	$ -	$ -	$15,000

NOTE 10. FIXED ASSETS

Fixed assets as of December 31, 2013 and September 30, 2013, respectively, consist of the following:

	December 31, 2013	September 30, 2013	Estimated Useful Lives (years)
Equipment	$2,719,000	$2,668,000	5
Furniture and fixtures	572,000	532,000	5
Leasehold improvements	1,419,000	1,074,000	Lesser of useful life or term of lease
Capital Leases (Primarily composed of Computer Equipment)	2,580,000	2,510,000	5
	7,290,000	6,784,000	
Less accumulated depreciation and amortization	(6,437,000)	(6,337,000)	
Fixed assets - net	$853,000	$447,000	

Depreciation expense for the three months ended December 31, 2013 and 2012 was $100,000 and $138,000, respectively.

NOTE 11. OTHER ASSETS

At December 31, 2013 and September 30, 2013, the Company had other assets of $671,000 and $493,000, respectively, primarily comprised of security deposits for the Company’s offices.

NOTE 12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Accounts payable, accrued expenses and other liabilities consist of the following:

	December 31, 2013	September 30, 2013
Commissions payable	$9,931,000	$9,141,000
Deferred clearing fee credits	114,000	138,000
Telecommunications vendors payable	242,000	166,000
Legal payable	401,000	584,000
Deferred rent payable	267,000	220,000
Accrued compensation	851,000	195,000
Settlements	593,000	-
Capital lease liability	86,000	108,000
Other vendors	4,184,000	3,134,000
Total	$16,669,000	$13,686,000

NOTE 13. COMMITMENTS AND CONTINGENCIES

Litigation and Regulatory Matters

The Company has been named as a defendant in various legal actions, substantially all of which are arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company recognizes a legal liability when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, however, the Company accrues the minimum amount in the range.

The Company records legal reserves and related insurance recoveries for significant or unusual cases on a gross basis.

The Company is subject to and maintains insurance coverage for claims and lawsuits in the ordinary course of business, such as customer complaints or disclosures about risks with securities purchased, as well as various arbitrations and other litigation matters.

Defense costs are expensed as incurred and classified as professional services within the unaudited condensed consolidated statements of income. When there is indemnification or insurance, the Company may engage in defense or settlement and subsequently seek reimbursement for such matters. In connection with various acquisitions, and pursuant to the purchase and sale agreements, the Company has received third-party indemnification for certain legal proceedings and claims. Some of these matters have been defended and paid directly by the indemnifying party.

The Company believes, based on the information available at this time, after consultation with counsel, consideration of insurance, if any, and indemnifications provided by the third-party indemnitors, that the outcomes of any legal proceedings will not have a material adverse impact on the unaudited condensed consolidated statements of income, financial condition or cash flows.

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately $16,350,000. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and based on discussions with counsel believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at December 31, 2013 and September 30, 2013, are approximately $312,000 and $250,000 (inclusive of legal fees incurred to date and estimated claims), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of $260,000 and 290,000 for the three months ended December 31, 2013 and 2012, respectively.

NOTE 14. RELATED PARTY TRANSACTIONS

Mr. Fagenson, the Co-Executive Chairman of the Board of Directors is a party to an Independent Contractor Agreement, dated February 27, 2012, with the NSC, whereby in exchange for establishing and maintaining a branch office of NSC in New York, New York (the “Branch”), Mr. Fagenson receives 50% of any net income accrued at the Branch, which amounted to date has been immaterial and his daughter, Stephanie Fagenson, is receiving an annual salary of $72,000.

Mr. Fagenson was also a party to a sub-lease agreement wherein during the aftermath of Hurricane Sandy in fiscal year 2012 and part of 2013, Mr. Fagenson sublet office space to an independent contractor office of National Securities. This agreement was of no financial consequence to the Company and was terminated during fiscal 2013.

M. Klein & Company was engaged during the fiscal year ended 2013 to perform certain evaluation services and to advise the Board on corporate actions. The principal officer engaged to conduct these services is the brother of the Chief Executive Officer and Co-Chairman of the Board. Mark Klein received no direct or indirect compensation as a result of this engagement. The total fees accrued for these services in the three months ended December 31, 2013 were $50,000 and no fees were paid in the same period in 2012.

NOTE 15. NET CAPITAL REQUIREMENTS

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

National Securities has elected to use the alternative standard method permitted by the Rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes National Securities from having to calculate a ratio of aggregate indebtedness to net capital. At December 31, 2013, National Securities had net capital of approximately $4,577,000 which was approximately $4,327,000 in excess of its required net capital of $250,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000. In addition to the net capital requirements, vFinance Investments is required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2013, vFinance Investments had net capital of approximately $1,993,000, which was approximately $993,000 in excess of its required net capital of $1,000,000, and its percentage of aggregate indebtedness to net capital was 47.4%. The Broker-Dealer Subsidiaries qualify under the exemptive provisions of Rule 15c3-3 which relates to the custody of securities for the account of customers pursuant to Section (k)(2)(ii) of the Rule as none of them carry security accounts of customers or perform custodial functions related to customer securities.

Prime Capital Services is required maintain minimum regulatory net capital of $100,000 and a ratio of aggregate indebtedness to net capital, both as defined, shall not exceed the greater of 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2013, Prime Capital Services had net capital of approximately $493,000, which was approximately $393,000 in excess of its required net capital of $100,000 and its percentage of aggregate indebtedness to net capital was 169.2%.

Advances, dividend payments and other equity withdrawals from its 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.

In October 2013, National Securities distributed equity capital to its Parent in the amount of $1,000,000. The SEC, FINRA and NFA were notified of this distribution in accordance with applicable rules and regulations.

In October 2013, vFinance Investments distributed equity capital to its Parent in the amount of $500,000. The SEC, FINRA and NFA were notified of this distribution in accordance with applicable rules and regulations.

NOTE 16. EMPLOYEE BENEFITS

In September 2011, the Company created a new defined contribution 401(k) plan (the “Plan”) merging the two plans originally formed prior to the merger of National and vFinance effective October 1, 2011, (the “Terminated Plans”). Under the Plan, employees can elect to defer up to 75% of eligible compensation, subject to certain limitations, by making voluntary contributions to the Plan. As a result of the Plan’s larger size, the Company was able to eliminate all administrative costs to the Company, as well as offer participants a larger selection of investment choices. The Company’s contributions are made at the discretion of the Board of Directors. For the new Plans and the Terminated Plans, the Company made no contributions during the three months ended December 31, 2013 and 2012.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

We are engaged in independent brokerage and advisory services and asset management services, investment banking, equity research and institutional sales and trading, through the Company's principal subsidiaries, National Securities Corporation ("National Securities or "NSC")and vFinance Investments, Inc. ("vFinance Investments") (and collectively with National Securities and vFinance Investments, the "Broker-Dealer Subsidiaries"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of the Company retail, corporate and institutional clients. Following the Company's merger with Gilman Ciocia, Inc., a Delaware corporation ("Gilman") in October 2013, we provide tax preparation services through Gilman, which is now a wholly-owned subsidiary. In November 2013, following approval from the Financial Industry Regulatory Authority ("FINRA"), National Securities received a transfer of Gilman's Prime Capital Services retail brokers and customer accounts.

Each of the Broker-Dealer Subsidiaries is subject to regulation by, among others, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), the Municipal Securities Rulemaking Board ("MSRB") and are members of the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA"). In addition, each of the Broker-Dealer Subsidiaries is licensed to conduct its brokerage activities in all 50 states, plus the District of Columbia and Puerto Rico and the U.S. Virgin Islands. Gilman is also subject to regulation by, among others, the Internal Revenue Service.

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

Gilman provides federal, state and local tax preparation services to individuals, predominantly in the middle and upper income tax brackets and accounting services to small and midsize companies.

As of December 31, 2013, we had approximately 1,100 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our 32 Company offices located in New York, New Jersey, Florida, Washington and Illinois branches, the Company has approximately 117 other registered offices, owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses.

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

Economic Overview and Impact of Financial Market Events

In the quarter ending December 31, 2013, the U.S. domestic equity markets and the S&P 500 continued to rise from the levels in 2011 and earlier periods in 2012. This increase was partly fueled by the Federal Reserve long-term buying. The Federal Reserve has since announced that it will taper its long-term bond buying. If market participants do not acquire similar volumes of long-term bonds than the Federal Reserve used to, there might be a slight increase in long-term interest rates, which would make equity securities less attractive. While corporate profits of US companies have consistently met or exceeded expectations for multiple quarters, some companies have shown less than anticipated increase in profits, which makes the equity securities markets more volatile. Continued concerns over economic growth and the labor participation rate will add some volatility to the equity securities market. While the longer-term outlook of the European debt crisis is uncertain, we continue to maintain nominal direct exposure to sovereign debt securities.

While there is a correction underway in the equity securities market, the impact on the volume of transactions we enter on behalf of our clients, which is still a leading generator of revenues for us, will vary depending on the level of volatility of the equity securities market, which is difficult to predict at this point.

If the market participants believe that the volatility of such markets is too high, it might lead to a reduction in the volume of transactions of US equity securities. Additionally, if the market participants believe that the US equity securities market is not synchronized with the underlying corporate profits, it may create a sharp adjustment to such markets, with significantly higher volume of transactions, followed by a longer period in which the volume of transactions is lower than average. While the longer-term outlook of the European debt crisis is uncertain, we continue to maintain nominal direct exposure to sovereign debt securities.

It is not practical to determine to what extent such market conditions will continue, or whether they will improve or worsen. It is also difficult to predict which future events will impact the market conditions in the future, other than anticipated increase in revenues and related expenses resulting from acquisition of Gilman. Accordingly, we are unable to determine any particular trend in our revenues and certain expenses, such as commission expenses, to the extent that they are correlated to revenues.

Growth Strategy

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

Key Indicators of Financial Performance for Management

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

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RESULTS OF OPERATIONS

Revenues

Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012

The Company's first quarter of fiscal year 2014 resulted in a substantial increase in revenues and a corresponding increase in operating expenses, primarily as a result of our merger with Gilman Ciocia. The merger closed on October 15, 2013 and as a result nearly a full quarter of operations have been incorporated into our results. As a result, the Company reported a net income of $687,000 compared with a net loss of $41,000 for the three months and quarter ended December 31, 2013 and 2012, respectively.

	Three Months Ended December 31,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions	$27,296,000	$16,041,000	$11,255,000	70 %
Principal transactions	3,158,000	2,601,000	557,000	21 %
Investment banking fees	3,893,000	2,055,000	1,838,000	89 %
Interest and dividends	933,000	1,047,000	(114,000)	-11 %
Transfer fees and clearing services	2,316,000	2,008,000	308,000	15 %
Investment advisory fees	3,181,000	2,419,000	762,000	32 %
Tax preparation and accounting fees	538,000	-	538,000	0 %
Other	478,000	275,000	203,000	74 %
Total Revenues	**$41,793,000**	**$26,446,000**	**$15,347,000**	58 %

Total revenues increased $15,347,000, or 58%, in the first quarter of fiscal year 2014 to $41,793,000 from $26,446,000 in the first quarter of fiscal year 2013. The increase in revenues is primarily due to the increase in registered representatives, investment advisors, insurance sales representatives and accountants as a result of the merger with Gilman Ciocia. The merger, in conjunction with favorable market conditions in the retail, investment banking and the investment advisory marketplace helped to drive the higher revenues.

Commission revenue increased $11,255,000, or 70%, to $27,296,000 from $16,041,000 during the first quarter of fiscal year 2014 compared with the same period in fiscal year 2013, which is attributable to the increase in registered representatives as a result of the merger with Gilman Ciocia. The merger, in conjunction with favorable market conditions helped to drive the higher commissions.

Principal transactions, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, increased $557,000, or 21%, to $3,158,000 from $2,601,000 during the first quarter of fiscal year 2014 compared with the same period in fiscal year 2013. The increase is primarily due to more favorable trading conditions including higher market volumes, affecting our market making and fixed income trading activities in the quarter ended December 31, 2013 as compared to the same quarter in 2012.

Investment banking revenue increased $1,838,000, or 89% to $3,893,000 from $2,055,000 during the first quarter of 2014 compared to the same period in fiscal year 2013. This increase was attributable to a higher number of successful capital raising events for clients, in addition to more advisory and consulting services provided during the quarter.

Interest and dividend income decreased by $114,000 or 11%, to $933,000 from $1,047,000 in the first quarter of fiscal year 2014 compared with the same period in fiscal year 2013. The decrease is primarily attributable to somewhat lower customer margin account balances and lower customer free cash balances during the quarter.

Transfer fees and clearance services increased $308,000 or 15%, to $2,316,000 in the first quarter of fiscal year 2014 from $2,008,000 in the first quarter of fiscal year 2013, which is due to the increase in registered representatives and the number of transactions charged to those associates as a result of the merger with Gilman Ciocia.

Investment advisory fees increased $762,000, or 32%, to $3,181,000 from $2,419,000 during the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The increase is due to the increase in our number of investment advisors and their assets under management as a result of the merger with Gilman Ciocia.

Tax preparation and accounting fees amounted to $538,000 in 2014. This source of revenue is new to the Company in 2014 and is due to the merger with Gilman Ciocia.

Other revenue increased $203,000, or 74%, to $478,000 from $275,000 during the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The increase is due to the increase in overall business activity as a result of the merger with Gilman Ciocia.

Operating Expenses

In comparison with the 58% increase in total revenues, total expenses increased 55%, or $14,508,000, to $40,998,000 for first quarter of fiscal year 2014 compared to $26,490,000 in the first fiscal quarter of fiscal year 2013. The increase in total expenses is consistent with the increase in revenues brought about by the merger with Gilman Ciocia. The Company saw a rise in all areas of its operating costs with the exception of interest expense, but management maintains control of those operating costs despite the addition to its business lines.

	Three Months Ended December 31,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions, compensation and fees	$34,933,000	$22,835,000	$12,098,000	53 %
Clearing fees	796,000	422,000	374,000	89 %
Communications	1,140,000	1,119,000	21,000	2 %
Occupancy, equipment and other admin expenses	2,590,000	770,000	1,820,000	236 %
Professional fees	1,015,000	771,000	244,000	32 %
Interest	16,000	165,000	(149,000)	-90 %
Taxes, licenses and registration	508,000	408,000	100,000	25 %
	$40,998,000	$26,490,000	$14,508,000	55 %

Commission, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as base compensation to our employees, brokers, and support staff, increased by $12,098,000, or 53%, to $34,933,000 from $22,835,000 for the first quarter of fiscal year 2014 compared to the same quarter of fiscal year 2013. The increase is primarily attributable to the increase in revenues and the merger with Gilman Ciocia. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating $52,000 and $60,000 for the first quarter of fiscal year 2014 and 2013, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Employee compensation includes the amortization of the fair value associated with stock based compensation of $210,000 and $0 for the three months ended December 31, 2013 and 2012, respectively.

Clearing fees increased $374,000, or 89%, to $796,000 in the first quarter of fiscal year 2014 from $422,000 in the first quarter of fiscal year 2013. This increase is commensurate with the increase in transaction volumes and clearance service revenue in conjunction with the merger with Gilman.

Communications expenses increased by $21,000, or 2% to $1,140,000 in the first quarter of fiscal year 2014 from $1,119,000 in the first quarter of fiscal year 2013. This increase is primarily due to the merger with Gilman.

Occupancy, equipment and other administrative expenses increased $1,820,000, or 236%, to $2,590,000 from $770,000 in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. This increase is primarily attributable to an increase in rent, amortization of intangibles, advertising, general insurance, office supplies and professional dues and subscriptions primarily as a result of the merger with Gilman.

Professional fees increased $244,000, or 32% to $1,015,000 from $771,000 in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. This increase is attributed to continued cost of defense associated with various arbitrations as well as legal and other professional costs associated with the Gilman merger.

Interest expense decreased by $149,000, or 90%, to $16,000 from $165,000 in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The decrease is primarily due to the Company’s Recapitalization which allowed for the repayment of all outstanding debt in 2013.

Taxes, licenses and registration increased $100,000, or 25%, to $508,000 from $408,000 in the first quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. This increase in taxes, licenses and registration is primarily due to the merger with Gilman, and the transfer of its registered personnel to National Securities.

NON-G.A.A.P. INFORMATION

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For the three months ended December 31, 2013 and 2012, EBITDA, as adjusted, was $1,669,000 and $476,000, respectively. The increase in EBITDA, as adjusted is primarily due to the favorable market conditions in the retail, investment banking and the investment advisory marketplace.

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

	Three Months Ended December 31	
	2013	2012
Net income (loss), as reported	$687,000	$(41,000)
Interest expense	16,000	165,000
Income taxes	170,000	20,000
Depreciation	100,000	117,000
Amortization	434,000	155,000
EBITDA	1,407,000	416,000
Non-cash compensation expense	210,000	0
Forgivable loan amortization	52,000	60,000
EBITDA, as adjusted	$1,669,000	$476,000

EBITDA, adjusted for gains or losses on sales of assets, non-cash compensation expense and loss on extinguishment of debt, is a key metric we use in evaluating our business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC.

Liquidity and Capital Resources

	Ending Balance December 31,		Average Balance during first three months ended December	
	2013	2012	2013	2012
Cash	$15,643,000	$7,444,000	$17,814,000	$7,689,000
Receivables from broker-dealers and clearing organizations	2,799,000	2,590,000	3,547,500	3,120,000
Marketable securities	427,000	653,000	427,500	674,500
Accounts payable, accrued expenses and other liabilities	16,669,000	10,603,000	15,593,000	11,081,500
Convertible notes payable excluding debt discount	-	6,800,000	-	6,800,000
Subordinated borrowings	-	1,000,000	-	1,000,000

We maintain a highly liquid balance sheet. At December 31, 2013 and 2012, 45% and 69%, respectively, of our total assets consisted of cash, marketable securities owned and receivables from clearing brokers and other broker-dealers. The level of cash used in each asset class is subject to fluctuation based on market volatility, revenue production and trading activity in the marketplace. Additionally, at September 30, 2013, we had approximately $5.4 million in cash which was eventually disbursed on October 15, 2013, pursuant to our merger agreement with Gilman.

National Securities has elected to use the alternative standard method permitted by the Rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes National Securities from having to calculate a ratio of aggregate indebtedness to net capital. At December 31, 2013, National Securities had net capital of approximately $4,577,000 which was approximately $4,327,000 in excess of its required net capital of $250,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000. In addition to the net capital requirements, vFinance Investments is required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2013, vFinance Investments had net capital of approximately $1,993,000, which was approximately $993,000 in excess of its required net capital of $1,000,000, and its percentage of aggregate indebtedness to net capital was 47.4%. The Broker-Dealer Subsidiaries qualify under the exemptive provisions of Rule 15c3-3 which relates to the custody of securities for the account of customers pursuant to Section (k)(2)(ii) of the Rule as none of them carry security accounts of customers or perform custodial functions related to customer securities.

Prime Capital Services is required maintain minimum regulatory net capital of $100,000 and a ratio of aggregate indebtedness to net capital, both as defined, shall not exceed the greater of 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2013, Prime Capital Services had net capital of approximately $493,000, which was approximately $393,000 in excess of its required net capital of $100,000 and its percentage of aggregate indebtedness to net capital was 169.2%.

Advances, dividend payments and other equity withdrawals from the Broker-Dealer Subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During the first quarters of fiscal 2014 and 2013, the Broker-Dealer Subsidiaries were in compliance with the rules governing dividend payments and other equity withdrawals.

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

The objective of liquidity management is to ensure that the Company has ready access to sufficient funds to meet commitments, fund deposit withdrawals and efficiently provide for the credit needs of customers. We monitor our liquidity needs and available collateral levels daily to help ensure that an appropriate liquidity cushion, in the form of unpledged collateral, is maintained at all times. Our ability to quickly reduce funding needs by balance sheet contraction without adversely affecting our core businesses and to pledge additional collateral in support of secured borrowings is continuously evaluated to ascertain the adequacy of our capital base.

We do not have any material commitments for capital expenditures. We routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have ranged between $24,000 and $35,000 during the first quarters of fiscal 2014 and 2013, respectively.

	Three-months ended December 31, 2013	2012
Cash flows from operating activities		
Net income (loss)	$687,000	$(41,000)
Non-cash adjustments		
Depreciation and amortization	534,000	294,000
Fair value options and restricted stock units	210,000	-
Other	52,000	45,000
Changes in assets and liabilities		
Receivables from broker-dealers, clearing organizations	3,319,000	1,060,000
Securities owned	349,000	(365,000)
Accounts payable, accrued expenses, and other liabilities	(3,307,000)	(957,000)
Other	(2,416,000)	(491,000)
Net cash used in operating activities	(572,000)	(455,000)
Cash flows used in investing activities		
Acquisition-related cash acquired	1,654,000	-
Payment of certain liabilities of Gilman Ciocia	(5,400,000)	-
Purchase of fixed assets	(24,000)	(35,000)
	(3,770,000)	(35,000)
Net change in cash	$(4,342,000)	$(490,000)

Quarter ended December 31, 2013

The decrease in receivables from clearing organizations, broker-dealers and others during the first quarter of fiscal 2014 is primarily due to the higher commissions earned in December 2013 as compared to December 2012. These receivables are typically received within 30 days of the close of the month.

Changes in securities owned are primarily due to a decrease in our position size offset by a realized gain on the sale of warrants held by the Company at December 31, 2013. The increase in accounts payable, accrued expenses and other liabilities at December 31, 2013 as compared to December 31, 2012 is primarily due to the assumption of the liabilities from the Gilman merger.

Cash provided by investing activities during the first quarter of 2014 amounted to $1,630,000 and is primarily due to cash acquired of $1,654,000 resulting from the merger with Gilman.

Cash used in financing activities during the first quarter of 2014 amounted to $5,400,000 and consists of the cash consideration we used to satisfy the obligations of certain liabilities of Gilman at the date of closing.

Quarter ended December 31, 2012

The decrease in receivables from clearing organizations, broker-dealers and others during the first quarter of fiscal 2013 is primarily due to the higher percentage of commission revenues being derived from markups versus commissions in December 2012 as compared to December 2011. These receivables are typically received within 30 days of the close of the month. Changes in securities owned are primarily due to a general increase in securities held for trading as well as a $180,000 increase in the valuation of non-marketable warrants and securities held as at December 31, 2012, which the Company received as compensation for investment banking deals. The decrease in accounts payable, accrued expenses and other liabilities at December 31, 2012 as compared to December 31, 2011 is primarily due to faster payment processing due to cash generated from our financing in September 2012.

Cash used in investing activities during the first quarter of 2013 amounted to $35,000 and primarily consisted recurring purchases of computer equipment.

Operating cash flows from period to period

Our net cash used in operating activities decreased to $572,000 from $455,000 for the first quarters of fiscal 2014 and 2013, respectively. Such decrease is primarily attributable to the aforementioned changes in assets and liabilities during the respective periods, net of the increased profitability.

OFF-BALANCE SHEET ARRANGEMENTS

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

Recent Accounting Guidance Not Yet Adopted

In July 2013, the FASB Issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The Update provides guidance for the presentation of an unrecognized tax benefit when, among other things, a net operating loss carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

The new guidance will be effective for the Company beginning January 1, 2014. Earlier adoption is permitted. The Company believes that the new guidance will not have any material impact on the Company’s financial statements upon adoption.

In February 2013, the FASB issued Accounting Standard Update ("ASU") No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The Update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). The guidance in this Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The new guidance became effective for the Company on January 1, 2014. The Company believes that the new guidance will not have any material impact on the Company's financial statements upon adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

The Company monitors its market and credit risks daily through internal control procedures designed to identify and evaluate the various risks to which the Company is exposed. There can be no assurance, however, that the Company's risk management procedures and internal controls will prevent losses from occurring as a result of such risks.

The following table shows the quoted market values of marketable securities we owned ("long") , securities we sold but have not yet purchased ("short") , and net positions as of December 31, 2013:

	Securities owned	Securities sold, but not yet purchased
Corporate stocks –marketable	$243,000	$ -
Mutual funds	50,000	-
Fixed income securities	134,000	16,000

Corporate stocks –non-marketable	24,000	-
Restricted stock and warrants – non-marketable	6,000	-
Total	$457,000	$ 16,000

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems and inadequacies or breaches in our control processes. We operate in a dynamic market and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions and damage to our reputation. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees operate within established corporate policies and limits.

Risk Management

We have established various committees of the Board of Directors to manage the risks associated with our business. Our Audit Committee was established for the primary purpose of overseeing (i) the integrity of our unaudited and audited condensed consolidated financial statements, (ii) our compliance with legal and regulatory requirements that may impact our unaudited condensed consolidated financial statements or financial operations, (iii) the independent auditor's qualifications and independence and (iv) the performance of our independent auditor and internal audit function.

In addition, we have written policies and procedures that govern the conduct of business by our employees and our relationship with our clients. Our client policies address the extension of credit for client accounts, data and physical security, compliance with industry regulation and codes of ethics to govern employee conduct among other matters.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Based on our evaluation of disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) required by the Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Changes in internal controls.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately $16,350,000 in aggregate. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and based on discussions with counsel believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at December 31, 2013 and September 30, 2013, are approximately $312,000 and approximately $250,000 (inclusive of legal fees and estimated claims), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of $260,000 and $290,000 for the fiscal quarters ended December 31, 2013 and 2012, respectively.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Chief Executive Officer’s Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Chief Financial Officer’s Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Chief Executive Officer’s Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer’s Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS** XBRL Instance
101.SCH** XBRL Taxonomy Extension Schema
101.CAL** XBRL Taxonomy Extension Calculation
101.DEF** XBRL Taxonomy Extension Definition
101.LAB** XBRL Taxonomy Extension Labels
101.PRE** XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

February 14, 2014 By: /s/ Mark Klein
Mark Klein
Chief Executive Officer

February 14, 2014 By: /s/ Alan B. Levin
Alan B. Levin
Chief Financial Officer