NATIONAL HOLDINGS CORP
Form 424B3
November 05, 2013

File Pursuant to Rule 424(b)(3)

Registration No. 333-191662

10,583,330 Shares

NATIONAL HOLDINGS CORPORATION

Common Stock

This prospectus relates to the resale at various times by the selling stockholders identified in this prospectus of up to 10,583,330 shares of our common stock. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. See “Selling Stockholders” beginning on page 76 of this prospectus for a complete description of the selling stockholders.

The selling stockholders may sell the shares of our common stock being offered by them from time to time on the OTCQB Marketplace operated by the OTC Market Group, Inc., or OTCQB, in market transactions, in negotiated transactions or otherwise, and at prices and at terms that will be determined by the then prevailing market price for the shares of our common stock or at negotiated prices directly or through brokers or dealers, who may act as agent or as principal or by a combination of such methods of sale. See “Plan of Distribution” beginning on page 79 of this prospectus for a complete description on the methods of sale. We will pay the expenses incurred to register the shares for resale, but the selling stockholders will pay any underwriting discounts, commissions or agent’s commissions related to the sale of their shares of our common stock.

Our common stock is traded on the OTCQB under the symbol “NHLD”. On November 1, 2013, the closing sale price of our common stock was $0.41 per share.

Investing in our common stock involves risks. Before making any investment in our securities, you should read and carefully consider risks described in the “Risk Factors” section beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to

the contrary is a criminal offense.

The date of this prospectus is November 1, 2013.

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with information that is different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. The selling stockholders are offering to sell and seeking offers to buy these securities only in jurisdictions where offers and sales are permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all the information that should be considered before investing in our common stock. Investors should read the entire prospectus carefully, including the more detailed information contained herein under the "Risk Factors" and "Special Note Regarding Forward-Looking Statements" sections and our consolidated financial statements and the notes to those financial statements.

As used in this prospectus, unless the context otherwise requires, the "Company," "National," "we," "us" and "our" refer to National Holdings Corporation, a Delaware corporation, as well as its subsidiaries.

Our Company

Overview

National Holdings Corporation, a Delaware corporation organized in 1996, is a financial services organization, operating primarily through its wholly-owned subsidiaries, National Securities Corporation ("National Securities" or "NSC") and vFinance Investments, Inc. ("vFinance Investments") (collectively, the "Broker-Dealer Subsidiaries"). The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington.

Through its Broker-Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 39,000 high net worth individual and institutional clients, (2) provides investment banking, merger and acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) engages in trading securities, including making markets in over 5,800 securities, providing liquidity in both foreign and domestic issues on a variety of exchanges and also providing execution and technical analysis in the United States Treasury marketplace. The 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 (the "SEC"), are members of the Financial Industry Regulatory Authority ("FINRA"), Securities Investor Protection Corporation ("SIPC") and are also members of the National Futures Association ("NFA").

Our brokers operate primarily as independent contractors. An independent contractor registered representative who becomes an affiliate of a Broker-Dealer Subsidiary typically establishes his own office and is responsible for the payment of expenses associated with the operation of such office, including rent, utilities, furniture, computer and other equipment, stock quotation machines, software and general office supplies. The independent contractor registered representative is entitled to retain a higher percentage of the commissions generated by his sales than an employee registered representative at a traditional employee-based brokerage firm. This arrangement allows us to operate with a reduced amount of fixed costs and lowers the risk of operational losses for lower or non-production.

Our 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.

Our 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.

Corporate Information

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

Private Placement

On August 28, 2013, we entered into a Securities Purchase Agreement (the "August Purchase Agreement") with the selling stockholders providing for the issuance and sale of 10,583,330 shares (the "August Shares") of the Company's common stock, par value $0.02 per share, for an aggregate purchase price of approximately $3,175,000. The closing of the sale of the August Shares occurred on August 30, 2013 (the "August Closing").

In connection with the August Purchase Agreement, on August 28, 2013, the Company and the selling stockholders entered into a Registration Rights Agreement (the "August Registration Rights Agreement"). Pursuant to the August Registration Rights Agreement, the Company has agreed to use its commercially reasonable efforts to (i) file with the SEC as soon as practicable but in no event later than 45 days of the date of the August Closing, a registration statement covering the resale of all August Shares and (ii) have the registration statement be declared effective under the Securities Act of 1933, as amended (the "Securities Act"), as soon as practicable but in no event later than the 90 days or if there is a review of the registration statement by the SEC, 120 days after the date of the August Closing. In the event that (1) a registration statement is not declared effective by the SEC on or prior to its required effectiveness date, (2) after the date the registration statement is declared effective by the SEC, (a) a registration statement ceases for any reason, to remain continuously effective or (b) the selling stockholders are not permitted to utilize the prospectus included in the registration statement therein to resell the August Shares, in each case, for more than an aggregate of 20 consecutive days or 45 days during any 12-month period, or (3) the Company fails to satisfy the current public information requirement pursuant to Rule 144(c)(1) under the Securities Act, it shall pay to each selling stockholder an amount in cash equal to 1% of the purchase price attributed to the such shares on the date the failure occurs and every 30 days thereafter, until cured subject to a maximum amount of up to 10% of the aggregate purchase price of the August Shares. We are registering the shares under the Registration Statement, of which this prospectus is a part, to satisfy our obligation under the August Registration Rights Agreement.

The Offering

Common stock outstanding	122,888,840 (1)
Common stock offered by the selling stockholders	10,583,330
Use of Proceeds	We will not receive any of the proceeds from the sale of the shares of our common stock being offered under this prospectus. See "Use of Proceeds" beginning on page 16.
Risk Factors	There are many risks related to our business, this offering and ownership of our common stock that you should consider before you decide to buy our common stock in this offering. You should read the "Risk Factors" section beginning on page 6, as well as other cautionary statements throughout this prospectus, before investing in shares of our common stock.

(1) Unless otherwise indicated, the number of shares in this prospectus does not give effect to:

1,500,000 shares of our common stock reserved for issuance under our 2006 Stock Option Plan of which options to purchase 1,030,000 shares were outstanding as of the date of this prospectus;

15,500,000 shares of our common stock reserved for issuance for awards under our 2013 Omnibus Stock Incentive Plan, of which options to purchase 9,700,000 shares were outstanding as of the date of this prospectus; and

1,990,505 shares of our common stock reserved for issuance under warrants to purchase our common stock.

RISK FACTORS

An investment in shares of our common stock is highly speculative and involves a high degree of risk. We face a variety of risks that may affect our operations or financial results and many of those risks are driven by factors that we cannot control or predict. The following discussion addresses those risks that management believes are the most significant, although there may be other risks that could arise, or may prove to be more significant than expected, that may affect our operations or financial results. Prospective investors should carefully consider the following risk factors in evaluating an investment in our common stock

Risks Related to Our Business

Our operating results have resulted in reporting losses.

We reported losses of approximately $1.9 million and $4.7 million in fiscal years 2012 and 2011, respectively, and a profit of $1.3 million and a loss of $2.1 million for the nine months ended June 30, 2013 and 2012, respectively. There is no assurance that we will be profitable in the future. If we are unable to achieve or sustain profitability, we may need to curtail, suspend or terminate certain operations.

We may require additional financing.

In order for us to have the opportunity for future success and profitability, we periodically may need to obtain additional financing, either through borrowings, public offerings, private offerings, or some type of business combination (e.g., merger, buyout, etc.). We have actively pursued a variety of funding sources, and have consummated certain transactions in order to address our subsidiaries' capital requirements. We may need to seek to raise additional capital through other available sources, including borrowing additional funds from third parties and there can be no assurance that we will be successful in such pursuits. Additionally, the issuance of new securities to raise capital will cause the dilution of shares held by current stockholders. Accordingly, if we are unable to generate adequate cash from its operations, and if we are unable to find sources of funding, such an event would have an adverse impact on our liquidity and operations and adversely affect our ability to meet any net capital requirements.

We are exposed to risks due to investment banking activities.

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

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

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

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

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

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

Our Broker-Dealer Subsidiaries are subject to the SEC's net capital rule, which requires the maintenance of minimum net capital. National Securities and vFinance Investments are required to maintain $250,000 and $1,000,000, in minimum net capital, respectively. Due to its market maker status, vFinance Investments is required to maintain a specified amount of capital for each security that it makes a market in, based on the bid price of each stock. This required amount can exceed the minimum net capital requirement, and in the case of vFinance Investments, the minimum net capital requirement has been $1,000,000 (the limit) in recent years. The net capital rule is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with the net capital rule limits those operations of broker-dealers that require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness, such as subordinated debt, as it matures. FINRA may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, FINRA may immediately restrict or suspend certain or all of the activities of a broker-dealer. Our Broker-Dealer Subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below requirements established by the SEC, and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. In addition, if these net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain present levels of business, which could have a material adverse effect on our business. In addition, our Broker-Dealer Subsidiaries may become subject to net capital requirements in other foreign jurisdictions in which we currently operate or which we may enter. We cannot predict our future capital needs or our ability to obtain additional financing.

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

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

Our revenues may decline in adverse market or economic conditions.

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

Market fluctuations and volatility may reduce our revenues and profitability.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity, such as the asset price deterioration in the subprime residential mortgage market.

Our revenue and profitability may be adversely affected by declines in the volume of securities transactions and in market liquidity. Additionally, our profitability may be adversely affected by losses from the trading or underwriting of securities or failure of third parties to meet commitments. We act as a market maker in publicly traded common stocks. In market making transactions, we undertake the risk of price changes of being unable to resell the common stock we hold or being unable to purchase the common stock we have sold. These risks are heightened by the illiquidity of many of the common stocks we trade and/or make a market. Any losses from our trading activities, including as a result of unauthorized trading by our employees, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

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

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

- effectively use new technologies;
- adapt our services to emerging industry or regulatory standards; or
- market new or enhanced services.

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

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

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

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

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

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

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

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

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

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

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

We face significant competition for registered representatives.

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

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

We run the risk that employee misconduct could occur. Misconduct by employees could include:

- employees binding us to transactions that exceed authorized limits or present unacceptable risks to us;
- employees hiding unauthorized or unsuccessful activities from us; or
- the improper use of confidential information.

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

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

Although a significant portion of our business is conducted using traditional methods of contact and communications such as face-to-face meetings, a portion of our business is conducted through the Internet. We could experience system failures and degradations in the future.

We cannot assure you that we will be able to prevent an extended and/or material system failure if any of the following events occur:

- human error;
- subsystem, component, or software failure;
- a power or telecommunications failure;

- an earthquake, fire, or other natural disaster or act of God;
- hacker attacks or other intentional acts of vandalism; or
- terrorist acts or war.

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

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

Our independent registered public accounting firm has included an explanatory paragraph relating to our ability to continue as a going concern in its report on our audited financial statements included in this prospectus.

Our audited consolidated financial statements at September 30, 2012 and for the year then ended were prepared assuming that we will continue as a going concern. However, the report of our independent registered public accounting firm included elsewhere in this prospectus contains an explanatory paragraph on our consolidated financial statements stating there is substantial doubt about our ability to continue as a going concern, meaning that we may not be able to continue in operation for the foreseeable future or be able to realize assets and discharge liabilities in the ordinary course of operations. Such an opinion could materially limit our ability to raise additional funds through the issuance of new debt or equity securities or otherwise. There is no assurance that sufficient financing will be available when needed to allow us to continue as a going concern. The perception that we may not be able to continue as a going concern may also make it more difficult to operate our business due to concerns about our ability to meet our contractual obligations.

Risks Related to our Common Stock

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

Our common stock is quoted on the OTCQB. Traditionally, the trading volume of the common stock has been limited. For example, for the 30 trading days ending on August 31, 2013, the average daily trading volume was approximately 22,110 shares per day and on certain days there was no trading activity**.** During such 30-day period the closing price of our common stock ranged from a high of $0.33 to a low of $0.26. Because of this limited trading volume, holders of our securities may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

The price of our common stock is volatile.

The price of our common stock has fluctuated substantially. The market price of our common stock may be highly volatile as a result of factors specific to us and the securities markets in general. Factors affecting volatility may include: variations in our annual or quarterly financial results or those of our competitors; economic conditions in general; and changes in applicable laws or regulations, or their judicial or administrative interpretations affecting us or our subsidiaries or the securities industry. In addition, volatility of the market price of our common stock is further affected by its thinly-traded nature.

Our principal stockholders, including our directors and officers, control a large percentage of shares of our common stock and can significantly influence our corporate actions.

As of October 15, 2013, our executive officers, directors and/or entities that these individuals are affiliated with, owned approximately 15.8% of our outstanding common stock, or approximately 21.2% on a fully-diluted basis. Accordingly, these individuals and entities will be able to significantly influence most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions.

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

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

- must make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

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

There are risks associated with our common stock trading on the OTCQB rather than on a national exchange.

There may be significant consequences associated with our common stock trading on the OTCQB rather than a national exchange. The effects of not being able to list our common stock securities on a national exchange include:

- limited release of the market price of our securities;
- limited news coverage;
- limited interest by investors in our securities;
- volatility of our common stock price due to low trading volume;
- increased difficulty in selling our securities in certain states due to "blue sky" restrictions; and
- limited ability to issue additional securities or to secure additional financing.

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

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

- dividend rights;

- conversion rights;
- voting rights, which may be greater or lesser than the voting rights of our common stock;
- rights and terms of redemption;
- liquidation preferences; and
- sinking fund terms.

As of October 15, 2013, there are no shares of preferred stock outstanding. The issuance of shares of preferred stock, could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. We have no current plans to issue any preferred stock in the next 12 months, although the issuance of preferred stock may be necessary in order to raise additional capital.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

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

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

general economic conditions;

our ability to obtain future financing or funds when needed;

our ability to maintain sufficient regulatory net capital;

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

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

increased competition from on line and business development portals;

- technological changes;
- our potential inability to implement our growth strategy through recruiting, acquisitions or joint ventures;
- acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties; and
- our ability to maintain and execute a successful business strategy.

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

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

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares of our common stock offered under this prospectus by the selling stockholders. Rather, the selling stockholders will receive those proceeds directly. We have agreed to bear the expenses (other than any underwriting discounts or commissions or agent's commissions) in connection with the registration of our common stock being offered hereby by the selling stockholders.

DIVIDEND POLICY

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

PRICE RANGE OF COMMON STOCK

Our common stock trades under the symbol “NHLD” on the OTCQB. Quotations on the OTCQB reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

The following table sets forth the high and low closing sales prices for our common stock as reported on the OTC Bulletin Board for the periods indicated:

	High	Low
2010		
First Quarter	$0.80	$0.40
Second Quarter	0.65	0.24
Third Quarter	0.50	0.22
Fourth Quarter	0.44	0.18
2011		
First Quarter	$0.50	$0.34
Second Quarter	0.50	0.28
Third Quarter	0.45	0.20
Fourth Quarter	0.40	0.15
2012		
First Quarter	$0.39	$0.15
Second Quarter	0.45	0.16
Third Quarter	0.37	0.12
Fourth Quarter	0.36	0.13
2013		
First Quarter	$0.45	$0.16
Second Quarter	0.38	0.18
Third Quarter (through October 28, 2013)	0.39	0.25

The closing price of our common stock on October 28, 2013, as quoted on the OTCQB, was $0.37 per share.

Trades in our common stock may be subject to Rule 15g-9 of the Exchange Act, which imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, broker/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser’s written agreement to the transaction before the sale.

The SEC also has rules that regulate broker/dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities listed on some national exchanges, provided that the current price and volume information with respect to transactions in that security is provided by the applicable exchange or system). The penny stock rules require a broker/dealer, before effecting a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing before effecting the transaction, and must be given to the customer in writing before or with the customer's confirmation. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for shares of common stock. As a result of these rules, investors may find it difficult to sell their shares.

Stockholders

As of October 15, 2013, the Company had approximately 240 stockholders of record and estimates its total number of beneficial stockholders at approximately 110.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This prospectus 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 prospectus speak 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

National Holdings Corporation ("we," "our," "us," "National," or the "Company") is engaged in investment banking, equity research, institutional sales and trading, independent brokerage and advisory services and asset management services through our principal subsidiaries, National Securities Corporation ("National Securities"), vFinance Investments, Inc. ("vFinance Investments") and National Asset Management Inc. (National Securities and vFinance Investments, are the "Broker-Dealer Subsidiaries"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our retail, corporate and institutional clients.

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"), each is a member of the Securities Investor Protection Corporation ("SIPC") and are also subject to regulation by 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, with vFinance Investments also being licensed in the U.S. Virgin Islands.

As of June 30, 2013, we had approximately 960 associated personnel serving retail and institutional customers, trading and investment banking clients. With the exception of our New York, New Jersey, Florida, and Washington branches, our approximately 80 other registered offices are owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses. These independent operators, many of whom are financial planners, are required to pay their own expenses. This independent contractor model calls for a much higher payout percentage, (typically in the 70-90% range) than the traditional employee model of brokerage which typically only pays between 25-50% of production.

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 a client's account). 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 June 30, 2013, the U.S. domestic equity markets and the S&P 500 continued to rise from the levels in 2012. While corporate profits of US companies have consistently met or exceeded expectations for multiple quarters, the US domestic equity markets are still sensitive to lingering concerns over slowing economic growth and the elevated unemployment rate. Uncertainty over U.S. monetary and fiscal policy, specifically how the Federal Reserve handles its purchase of mortgage backed securities, how the U.S. Congress will handle the debt ceiling and continued sovereign debt concerns in Europe are expected to have an effect on the financial markets, but it is difficult to predict whether it will have an impact on the volatility in the US domestic equity markets. 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.

In response to the concerns noted above and the overall economic environment, the central banks, including the Federal Reserve, have continued to maintain historically low interest rates. The average federal funds effective rate was 0.12% in the quarter ending June 30, 2013. In the September 2012 meeting of the Board of Governors of the Federal Reserve System, it was announced that interest rates are expected to remain low into 2015 with a relatively low yield-curve for mid-term debt securities. The long-term outlook of low interest rates provides opportunities for the US equity securities market while it not hampering the US debt securities.

Recent Developments

On June 20, 2013, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with National Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of us ("Merger Sub"), and Gilman Ciocia, Inc., a Delaware corporation ("Gilman"). Upon the terms and subject to the conditions set forth in the Merger Agreement, Gilman became a wholly-owned subsidiary of the Company through a merger of Merger Sub with and into Gilman, with Gilman as the surviving corporation (the "Merger").

Upon the terms and subject to the conditions set forth in the Merger Agreement, by virtue of the Merger, each share of Gilman's common stock, par value $0.01 per share (the “Gilman Common Stock”), issued and outstanding immediately prior to the effective time of the Merger (other than any dissenting shares), shall be converted into the right to receive 0.24884345081 shares of our common stock; provided that in no event shall the Company or Merger Sub issue in excess of 24,000,000 shares (subject to rounding for fractional shares), in the aggregate, of our common stock. Immediately prior to the closing of the Merger, the outstanding indebtedness of Gilman will not exceed $5,400,000 (the “Assumed Indebtedness”) which shall exclude any capital leases and any insurance premium financing of Gilman or its subsidiaries, and the Company shall cause the Assumed Indebtedness to be paid off at the closing of the Merger. Any amounts of Assumed Indebtedness in excess of $5,000,000 and up to $5,400,000 (the “Difference”) shall cause a reduction in the number of shares of our common stock issued under the Merger Agreement; such reduction in a share amount equal to the quotient of the Difference and $0.30 (subject to equitable adjustment for any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into our common stock), extraordinary cash dividends, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to our common stock). In addition, the Company has agreed to issue options to purchase 1,750,000 shares of our common stock to certain employees and independent contractors of Gilman at an exercise price of $0.50 per share at the Closing. Following the closing of the Merger, the Company has also agreed to appoint two persons nominated by the Board of Directors of Gilman and reasonably acceptable to the Company to serve as Class I members of the Board of Directors of the Company and to nominate such persons for election at the next election of Class I directors of the Company.

Consummation of the Merger was subject to closing conditions, including, among other things, (i) the adoption and approval of the Merger Agreement by the requisite vote of Gilman's stockholders; (ii) the effectiveness of a registration statement on Form S-4 to be filed by the Company (which was declared effective by the SEC on August 9, 2013); (iii) the outstanding indebtedness of Gilman not exceeding $5,400,000 which will exclude any capital leases and any insurance premium financing of Gilman or its subsidiaries; (iv) the holders of not more than 5% of Gilman Common Stock outstanding having perfected and not withdrawn a demand for dissenter's rights under applicable law; (v) all severance, change of control payments, accelerations, accrued compensation, bonus, and vacation relating to any and all employees and consultants not exceeding the amounts set forth in Gilman's schedules to the Merger Agreement; (vi) FINRA having approved an application under Rule 1017 with respect to the Merger (the "Rule 1017 Application"); (vii) the Voting and Support Agreements (as defined below) having been executed and delivered to the Company; (viii) the absence of any law or order prohibiting the Merger; and (ix) the accuracy of the representations and warranties, subject to customary materiality qualifiers.

Each of the Company, Gilman and Merger Sub have made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants that (i) Gilman will conduct its business in the ordinary course of business consistent with past practice during the interim period between the execution of the Merger Agreement and the closing of the Merger; (ii) the Company and Gilman will not engage in certain kinds of transactions or take certain actions during such period; (iii) the Company and Gilman will cooperate in preparing and promptly causing to be filed with the SEC a proxy statement/prospectus and a Registration Statement on Form S-4 and to use reasonable best efforts to have the Form S-4 declared effective under the Securities Act of 1933, as amended, as promptly as practicable after such filing with the SEC (the Form S-4 was declared effective on August 9, 2013); (iv) Gilman as soon as practicable following the date upon which the S-4 becomes effective take all action necessary to duly call, give notice of, convene and hold a meeting of its stockholders for the purpose of obtaining the requisite stockholder vote to adopt the Merger Agreement (the stockholders of Gilman voted to adopt the Merger Agreement on September 9, 2013); (v) Gilman's board of directors recommending that its stockholders adopt the Merger Agreement, subject to certain exceptions; and (vi) the Company promptly causing to be filed with FINRA the Rule 1017 Application.

Prior to the closing of the Merger, Gilman was not permitted to solicit, initiate, knowingly encourage or facilitate, participate in any discussions or negotiations or entertain any proposals to be acquired other than pursuant to the Merger Agreement, subject to certain exceptions, including for Gilman's “fiduciary out” for a Superior Proposal (as defined in the Merger Agreement).

The Merger Agreement contains certain termination rights for the Company, on the one hand, and Gilman, on the other hand. The Merger Agreement provides that, upon termination under specified circumstances, (i) Gilman would be required to pay the Company a termination fee of $800,000, and (ii) the Company would be required to pay Gilman a reverse termination fee of $800,000.

On October 15, 2013, we completed the merger with Gilman. Pursuant to the Merger Agreement, the Company issued to the Gilman stockholders 0.235019 shares of our common stock for each outstanding share of Gilman common stock. In connection with the closing of the Merger two nominees of the Board of Directors of Gilman, James Ciocia and Frederick "Rick" Wasserman, were appointed to our Board of Directors as class I directors.

On August 28, 2013, we entered into a Securities Purchase Agreement (the "August Purchase Agreement") with the selling stockholders providing for the issuance and sale of 10,583,330 shares (the "August Shares") of the Company's common stock, par value $0.02 per share, for an aggregate purchase price of approximately $3,175,000. The closing of the sale of the August Shares occurred on August 30, 2013 (the "August Closing").

In connection with the August Purchase Agreement, on August 28, 2013, the Company and the selling stockholders entered into a Registration Rights Agreement (the "August Registration Rights Agreement"). Pursuant to the August Registration Rights Agreement, the Company has agreed to use its commercially reasonable efforts to (i) file with the SEC as soon as practicable but in no event later than 45 days of the date of the August Closing, a registration statement covering the resale of all August Shares and (ii) have the registration statement be declared effective under the Securities Act of 1933, as amended (the "Securities Act"), as soon as practicable but in no event later than the 90 days or if there is a review of the registration statement by the SEC, 120 days after the date of the August Closing. In the event that (1) a registration statement is not declared effective by the SEC on or prior to its required effectiveness date, (2) after the date the registration statement is declared effective by the SEC, (a) a registration statement ceases for any reason, to remain continuously effective or (b) the selling stockholders are not permitted to utilize the prospectus included in the registration statement therein to resell the August Shares, in each case, for more than an aggregate of 20 consecutive days or 45 days during any 12-month period, or (3) the Company fails to satisfy the current public information requirement pursuant to Rule 144(c)(1) under the Securities Act, it shall pay to each selling stockholder an amount in cash equal to 1% of the purchase price attributed to the such shares on the date the failure occurs and every 30 days thereafter, until cured subject to a maximum amount of up to 10% of the aggregate purchase price of the August Shares. We are registering the shares under the August Registration Statement, of which this prospectus is a part, to satisfy our obligation under the August Registration Rights Agreement.

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. Prospective 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.

Critical Accounting Policies and Estimates

The SEC recently issued proposed guidance for disclosure of critical accounting policies and estimates. National's most critical accounting policies relate to income recognition, income taxes, and stock-based compensation. The SEC defines "critical accounting estimates" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods.

National's critical accounting policies are as follows:

Revenue Recognition - Customer security transactions and the related commission income and expense are recorded as of the trade date. Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which National acts as an underwriter or agent. Investment banking revenues also include fees earned from providing financial advisory services. Investment banking management fees and sales concessions are recorded on the offering date and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Customers who are financing their transaction on margin are charged interest. National's margin requirements are in accordance with the terms and conditions mandated by its clearing firms, NFS, Legent, ICBC Rosenthal and RJO. The interest is billed based on the customer's average daily balance of the margin account.

Net dealer inventory gains result from securities transactions entered into for the account and risk of National. Net dealer inventory gains are recorded on a trade date basis. Transfer fees are charged for each customer's security transaction, and are recognized as of the trade date. Investment advisory fees are account management fees for high net worth clients based on the amount of the assets under management. These fees are billed quarterly and recognized at such time that the service is performed and collection is probable.

National generally acts as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which it does not make a market, and charges commissions based on the services National provides to its customers. In executing customer orders to buy or sell a security in which National makes a market, National 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. National 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.

Common Stock Purchase Warrants – National accounts for the issuance of common stock purchase warrants issued in connection with capital financing transactions in accordance with the provisions of Accounting Standard Codification 815- Derivatives and Hedging ("ASC 815"). Based on such provisions, National classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives National a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). National classifies 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 National) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

National assessed the classification of its derivative financial instruments as of September 30, 2012, which consist of common stock purchase warrants, and determined that such derivatives meet the criteria for equity classification under ASC 815.

Convertible Instruments – National evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815.

ASC 815 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 in accordance with Emerging Issues Task Force ("EITF") 00-19. 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 under otherwise applicable generally accepted accounting principles 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 subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional (as that term is described).

National accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with the provisions of Accounting Standard Codification 470-20 Debt with Conversion Options. Accordingly, National 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. National 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.

National evaluated the conversion option embedded in the Series A Preferred Stock and determined, in accordance with the provisions of these statements, that such conversion option does not meet the criteria requiring bifurcation of these instruments. The characteristics of the common stock that is issuable upon a holder's exercise of the conversion option embedded in the convertible preferred stock are deemed to be clearly and closely related to the characteristics of the preferred shares (as that term is defined under ASC 815). Additionally, National's conversion options, if free standing, would not be considered derivatives subject to the accounting guidelines prescribed under ASC 815.

However, National believes that certain conversion features embedded in its Series C and Series D Preferred Stock and the related warrants issued in connection with such instruments were not clearly and closely related to the economic characteristics of National's stock price prior to March 31, 2011. Accordingly, National recognized derivative liabilities in connection with such instruments. National uses judgment in determining the fair value of derivative liabilities at the date of issuance at every Statement of Financial Condition thereafter. National uses judgment in determining which valuation is most appropriate for the instrument (e.g., Black Scholes), the expected volatility, the implied risk free interest rate, as well as the expected dividend rate. As of March 31, 2011, the Series C and Series D Preferred Stock and the warrants associated with such Preferred Stock are accounted for as equity contracts.

Other Receivables – National extends unsecured credit in the normal course of business to its registered representatives. 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 registered representative. The allowance for doubtful accounts reflects the amount of loss that can be reasonably estimated by management, and is included in other expenses in the accompanying consolidated statements of operations.

National 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 National's option plans have characteristics that differ from traded options. In National's opinion, this valuation model does not necessarily provide a reliable single measure of the fair value of its employee stock options.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Our revenues for the three months ended June 30, 2013 increased, with a similar increase in fixed and variable expenses, compared to the same period last year. With this increase in revenues, we reported a net operating income of $805,000 as compared with a net operating income of $670,000 for the quarters ended June 30, 2013 and 2012, respectively.

Revenues

	Three Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions	$19,799,000	$18,328,000	$1,471,000	8 %
Net dealer inventory gains	3,649,000	4,280,000	(631,000)	-15 %
Investment banking	4,105,000	3,897,000	208,000	5 %
Interest and dividends	880,000	772,000	108,000	14 %
Transfer fees and clearance services	1,810,000	1,658,000	152,000	9 %
Investment advisory fees and other income	2,421,000	2,155,000	266,000	12 %
	$32,664,000	$31,090,000	$1,574,000	5 %

Total revenues increased $1,574,000, or 5%, to $32,664,000 from $31,090,000 in the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012. The increase in revenues is primarily the result of higher retail commissions, other related retail fees, investment banking fees resulting from more favorable market conditions and investment advisory fees resulting from having more assets under management offset by a decline in net dealer inventory gains, which is primarily the result of the decline in municipal bond market valuations.

Commission revenue increased $1,471,000, or 8%, to $19,799,000 from $18,328,000 during the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012, which is attributable to generally more favorable market conditions for retail brokerage.

Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $631,000, or 15%, to $3,649,000 from $4,280,000 during the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012. The decrease is primarily due to more volatility in the municipal bond market primarily affecting our fixed income trading activities in the quarter ended June 30, 2013 as compared to the same quarter in 2012.

Investment banking revenue increased $208,000, or 5% to $4,105,000 from $3,897,000 during the third quarter of 2013 compared to the same period in fiscal year 2012. This increase was attributable to a larger number of investment banking transactions during the third quarter of fiscal 2013 when compared to the same period in fiscal year 2012.

Interest and dividends revenue increased by $108,000 or 14%, to $880,000 from $772,000 in the third quarter of fiscal year 2013 compared with the same period in fiscal year 2012. The increase is primarily attributable to the slightly improved retail brokerage environment resulting in higher customer margin account balances, higher customer free cash balances, and slightly higher prevailing interest rates. Transfer fees and clearance services increased $152,000 or 9%, to $1,810,000 in the third quarter of fiscal year 2013 from $1,658,000 in the same quarter of fiscal year 2012.

This increase resulted from an increase in service fee income earned during the third quarter of fiscal 2013 offset by a slight decrease in account maintenance and other miscellaneous fee income.

Investment advisory fees and other income, consisting of asset management fees, other miscellaneous transaction fees and other investment income, increased $266,000, or 12%, to $2,421,000 from $2,155,000 during the second quarter of fiscal year 2013 compared to the same quarter of fiscal year 2012. The increase is due primarily to an increase in assets under management in our registered investment advisory subsidiary, National Asset Management.

Operating expenses

In comparison with the $1,574,000, or 5% increase in total revenues in the quarter ended June 2013 as compared to the same quarter of 2012, total operating expenses increased by $1,439,000, or 5%, to $31,859,000 for the third quarter of fiscal year 2013 compared to $30,420,000 in the third quarter of fiscal year 2012. This increase in total expenses is primarily a result of an increase in commissions, compensation and fees offset by decreases in occupancy, equipment and other administrative expenses as well as interest expense.

	Three Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions, compensation, and fees	$28,242,000	$26,473,000	$1,769,000	7 %
Clearing fees	552,000	421,000	131,000	31 %
Communications	1,174,000	1,157,000	17,000	1 %
Occupancy, equipment and other administrative expenses	663,000	972,000	(309,000)	-32 %
Professional fees	781,000	803,000	(22,000)	-3 %
Interest	10,000	213,000	(203,000)	-95 %
Taxes, licenses and registration	437,000	381,000	56,000	15 %
	$31,859,000	$30,420,000	$1,439,000	5 %

Commissions, compensation and fees, which primarily consists of commission expense related to commission revenue, net dealer inventory gains and investment banking revenues as well as employee payroll, increased $1,769,000, or 7%, to $28,242,000 in the third quarter of fiscal year 2013 from $26,473,000 in the third quarter of fiscal year 2012. The increase is consistent with the 8% increase in commission revenues for the same period offset by a decrease in employee compensation and related taxes and benefits. Commission expense also includes the amortization of advances to registered representatives aggregating $187,000 and $61,000 for the third quarter of fiscal year 2013 and 2012, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Clearing fees increased $131,000, or 31%, to $552,000 in the third quarter of fiscal year 2013 from $421,000 in the third quarter of fiscal year 2012. This is primarily due to higher revenues and more transactions in 2013 as compared to 2012.

Communications expense increased by $17,000, or 1%, to $1,174,000 in the third quarter of fiscal year 2013 from $1,157,000 in the third quarter of fiscal year 2012.

Occupancy, equipment and other administrative costs decreased $309,000, or 32%, to $663,000 in the third quarter of fiscal year 2013 from $972,000 in the third quarter of fiscal year 2012. This decrease is primarily due a reduction in the amounts paid for office rental and equipment rental. The Company has renegotiated its office lease for Boca Raton, Florida, and given space back to the landlord of its downtown New York City location in preparation for its move to Midtown New York in August. The bulk of these savings will be recognized in September 2013. The Company has reduced its equipment rental costs by renewing lease agreements on certain well maintained office equipment at a fraction of the original costs.

Professional fees decreased $22,000, or 3%, to $781,000 from $803,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. This decrease is not material, and is primarily attributed to a slight reduction in legal costs associated with the defense of various arbitrations, offset by an increase in legal costs associated with the various projects the Company has and is engaged in to expand its business.

Interest expense decreased by $203,000, or 95%, to $10,000 from $213,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. The decrease is primarily due to elimination of interest-bearing debt resulting from the repayment of all remaining outstanding notes payable during the second quarter of fiscal year 2013.

Taxes, licenses and registration expenses increased $56,000, or 15%, to $437,000 from $381,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. This increase in taxes, licenses and registration fees is as a result of a general increase in the number of new representatives that joined the Company during the third quarter of fiscal year 2013 as compared to the comparable quarter in 2012.

Nine Months Ended June 30, 2013 Compared to Nine Months Ended June 30, 2012

Our revenues for the first nine months of fiscal year 2013 increased with a decrease in fixed and variable expenses for the same nine months. This divergence between increasing revenues and decreasing fixed and variable costs resulted in a net operating profit of $1,477,000 as compared with a net operating loss of $1,066,000 for the first nine months of fiscal years 2013 and 2012, respectively.

Revenues

	Nine Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions	$56,608,000	$51,927,000	$4,681,000	9 %
Net dealer inventory gains	10,561,000	11,129,000	(568,000)	-5 %
Investment banking	8,494,000	12,884,000	(4,390,000)	-34 %
Interest and dividends	2,930,000	2,138,000	792,000	37 %
Transfer fees and clearance services	5,850,000	5,629,000	221,000	4 %
Investment advisory fees and other income	7,614,000	5,990,000	1,624,000	27 %
	$92,057,000	$89,697,000	$2,360,000	3 %

Total revenues increased $2,360,000, or 3%, to $92,057,000 from $89,697,000 in the first nine months of fiscal year 2013 compared to same period of fiscal year 2012. The increase in revenues is primarily due to more favorable market conditions in the retail marketplace as well as in our investment advisory platform. The volume of transactions during the third quarter of fiscal 2013 was up nominally as compared to the same nine months of fiscal 2012.

Commission revenue increased $4,681,000, or 9%, to $56,608,000 from $51,927,000 during the first nine months of fiscal year 2013 compared with the same period in fiscal year 2012. The increase in commissions was primarily due more favorable market conditions for retail brokerage.

Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $568,000, or 5%, to $10,561,000 from $11,129,000 during the first nine months of fiscal year 2013 compared with the same period in fiscal year 2012. The decrease is primarily due to greater volatility in the municipal bond market primarily affecting our fixed income trading activities as compared to the same nine months in 2012.

Investment banking revenue decreased $4,390,000, or 34%, to $8,494,000 from $12,884,000 during the first nine months of 2013 compared to the same period in fiscal year 2012. This decrease was attributable to lower average revenues per deal completed, while the number of deals completed was consistent with banking transactions during the first nine months of fiscal year 2013 when compared to the same period in fiscal 2012.

Interest and dividend income increased by $792,000, or 37%, to $2,930,000 from $2,138,000 in the first nine months of fiscal year 2013 compared with the same period in fiscal year 2012. The increase is primarily attributable to the improved retail brokerage environment resulting in higher customer margin account balances, higher customer free cash balances, and slightly higher prevailing interest rates. Transfer fees and clearance services increased $221,000, or 4%, to $5,850,000 in the first nine months of fiscal year 2013 from $5,629,000 in the first nine months of fiscal year 2012, resulting from a higher number of transactions made on behalf of our clients during the most recent period.

Investment advisory fees and other income, consisting of asset management fees, other miscellaneous transaction fees and other investment income, increased $1,624,000, or 27%, to $7,614,000 from $5,990,000 during the first nine months of fiscal year 2013 compared to the first nine months of fiscal year 2012. The increase is due primarily to an increase in assets under management in our registered investment advisory subsidiary, National Asset Management.

Operating expenses

In comparison with the 3% increase in total revenues, total operating expenses decreased by $183,000, or 0%, to $90,580,000 for the first nine months of fiscal year 2013 compared to $90,763,000 in the first nine months of fiscal year 2012. This decrease in total expenses is primarily a result of a reduction in occupancy and equipment rental costs, interest expense and employee compensation offset by an increase in commissions paid out due to the higher revenues.

	Nine Month Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	Percent
Commissions, compensation, and fees	$79,407,000	$78,885,000	$522,000	1 %
Clearing fees	1,549,000	1,256,000	293,000	23 %
Communications	3,437,000	3,519,000	(82,000)	-2 %
Occupancy, equipment and other administrative expenses	2,417,000	3,178,000	(761,000)	-24 %
Professional fees	2,316,000	1,979,000	337,000	17 %
Interest	240,000	764,000	(524,000)	-69 %
Taxes, licenses and registration	1,214,000	1,182,000	32,000	3 %
	$90,580,000	$90,763,000	$(183,000)	0 %

Commissions, employee compensation, and fees, which primarily includes expenses related to commission revenue, net dealer inventory gains and investment banking and employee compensation, increased $522,000, or 1%, to $79,407,000 in the first nine months of fiscal year 2013 from $78,885,000 in the first nine months of fiscal year 2012. The increase is primarily due to higher commissions paid on higher overall revenues offset by a decrease in employee compensation. Commission expense also includes the amortization of advances to registered representatives aggregating $212,000 and $204,000 for the first nine months of fiscal year 2013 and 2012, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities.

Clearing fees increased $293,000, or 23%, to $1,549,000 in the first nine months of fiscal year 2013 from $1,256,000 in the first nine months of fiscal year 2012. This is primarily due to revenues and more transactions in 2013 as compared to 2012.

Communications expenses decreased by $82,000, or 2%, to $3,437,000 in the first nine months of fiscal year 2013 from $3,519,000 in the first nine months of fiscal year 2012. This decrease is primarily due to a focus by management on reducing bandwidth and overall telecommunication services costs since the beginning of the fiscal year.

Occupancy, equipment and other administrative costs decreased $761,000, or 24%, to $2,417,000 from $3,178,000 in the first nine months of fiscal year 2013 compared to the first nine months of fiscal year 2012. This decrease is primarily due a reduction in the amounts paid for office rental and equipment rental. The Company has renegotiated its office lease for Boca Raton, Florida, and given a portion of its space back to the landlord in both its Boca Raton and its downtown New York City location. The Company is moving its downtown office to Midtown New York in August. Additional savings from the lease amendments and office moves will start to be recognized in September 2013. The Company has also reduced its equipment lease costs by signing new agreements on certain well maintained office equipment at a fraction of the original costs. These savings have been offset somewhat by rising insurance costs. Professional fees increased $337,000, or 17%, to $2,316,000 from $1,979,000 in the first nine months of fiscal year 2013 compared to the first nine months of fiscal year 2012. This increase is primarily attributed to legal fees associated with the various projects the Company is engaged in during the nine months ended June 30, 2013. This is offset by a slight reduction in legal costs associated with the defense of various arbitrations.

Interest expense decreased by $524,000, or 69%, to $240,000 from $764,000 in the first nine months of fiscal year 2013 compared to the first nine months of fiscal year 2012. The decrease is primarily due to the Company’s repayment of all remaining outstanding notes payable during the second quarter of fiscal year 2013.

Taxes, licenses and registration increased $32,000, or 3%, to $1,214,000 from $1,182,000 in the first nine months of fiscal year 2013 compared to the first nine months of fiscal year 2012. This increase in taxes, licenses and registration fees is as a result of a slightly higher fees paid for registration due to the registration of new independent brokers offset by a decrease in the Company’s membership fees primarily associated with its dropping its Equity Station FINRA membership.

Fiscal Year 2012 Compared with Fiscal Year 2011

The Company’s fiscal year 2012 resulted in a decrease in revenues, and a correlated decrease in variable expenses as well as cost savings in compensation and other fixed costs as implemented by management, compared with fiscal year 2011. As a result, the Company reported a net loss of $1,937,000 compared with a net loss of $4,713,000 for the fiscal years 2012 and 2011, respectively.

Revenues

	Fiscal Year		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions	$70,301,000	$85,296,000	$(14,995,000)	-18 %
Net dealer inventory gains	14,427,000	14,261,000	166,000	1 %
Investment banking	15,390,000	6,930,000	8,460,000	122 %
Interest and dividends	2,996,000	3,586,000	(590,000)	-16 %
Transfer fees and clearing services	7,196,000	8,528,000	(1,332,000)	-16 %
Investment advisory fees	8,092,000	7,567,000	525,000	7 %
Other	246,000	353,000	(107,000)	-30 %
	$118,648,000	$126,521,000	$(7,873,000)	-6 %

Total revenues decreased $7,873,000, or 6%, in fiscal year 2012 to $118,648,000 from $126,521,000 in fiscal year 2011. The decrease in revenues is primarily due to less favorable market conditions in retail brokerage offset by an increase in investment banking as described in our overview of the business environment.

Commissions revenues decreased by $14,995,000, or 18%, to $70,301,000 from $85,296,000 during fiscal 2012 when compared to the prior year, primarily due to less favorable general market conditions resulting in lower volume of transactions made on behalf of our clients.

Net dealer inventory gains, which includes profits on proprietary trading, market making activities, and customer mark-ups and mark-downs increased by $166,000, or 1%, to $14,427,000 from $14,261,000 during fiscal 2012 when compared to fiscal 2011, primarily due to slightly more favorable trading conditions affecting our market making and fixed income trading activities in the year ended September 30, 2012, as compared to the prior year period.

Investment banking fees increased $8,460,000, or122%, to $15,390,000 from $6,930,000,during fiscal 2012 when compared to the prior year, primarily from a larger number of and generally larger average size of successful capital raising events for clients, and advisory and consulting services provided during the year.

Interest and dividend revenue primarily consists of interest on customer margin account balances. Interest and dividends decreased by $590,000, or 16% to $2,996,000 from $3,586,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to somewhat lower customer margin account balances, lower customer free cash balances, and slightly lower prevailing interest rates during the year.

Transfer fees and clearing service revenue, which primarily consists of fees charged to our registered representatives to execute on their behalf, decreased by $1,332,000, or 16%, to $7,196,000 from $8,528,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to a lower number of transactions made on behalf of our clients during the most recent year.

Investment advisory fees, which primarily consists of fees charged to our clients in our asset based money management group, increased by $525,000, or 7%, to $8,092,000 from $7,567,000 during fiscal 2012 when compared to the prior year. The increase is primarily due to an increase in assets under management during the most recent year.

Other revenue which consists of transaction fees charged to our customers and other investment income decreased by $107,000, or 30% during fiscal 2012 when compared to the prior year. The decrease is primarily due to a lower number of these transactions made on behalf of our clients during the most recent year.

Operating expenses

	Fiscal Year		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions, compensation, and fees	$103,800,000	$113,325,000	$(9,525,000)	-8 %
Clearing fees	1,662,000	2,107,000	(445,000)	-21 %
Communications	4,731,000	4,571,000	160,000	4 %
Occupancy and equipment costs	4,189,000	5,052,000	(863,000)	-17 %
Professional fees	2,714,000	1,831,000	883,000	48 %
Interest	916,000	1,147,000	(231,000)	-20 %
Taxes, licenses and registration	1,536,000	1,639,000	(103,000)	-6 %
	$119,548,000	$129,672,000	$(10,124,000)	-8 %

In comparison with the 6% decrease in total revenues, total expenses decreased 8%, or $10,124,000, to $119,548,000 for fiscal year 2012 compared to $129,672,000 in fiscal year 2011. The decrease in total expenses is primarily the result of decreased commission expense which is consistent with the decrease in commission revenues combined with a decrease in occupancy and equipment costs resulting from managements' cost cutting efforts and the reduction of space in our New York office.

Commission, compensation, and fees expenses, 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, decreased by $9,525,000, or 8%, to $103,800,000 from $113,325,000 during fiscal year 2012 when compared to the prior year. The decrease is primarily attributable to a decrease in commission expense related to retail commission revenues, savings in salaries and other expenses as a result of cost cutting efforts by management, offset by a smaller increase in commission expense related to investment banking revenue and net dealer inventory gains. Commission expense also includes the amortization of advances to registered representatives aggregating $265,000 and $392,000 for fiscal 2012 and 2011, respectively. These amounts fluctuate based upon the amounts of advances 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 $10,000 and $265,000 in fiscal 2012 and 2011, respectively.

Clearing fees decreased $445,000 or 21% to $1,662,000 from $2,107,000 during fiscal 2012 when compared to the prior year. The decrease is commensurate with a decrease in transaction volumes and clearance service revenues in fiscal 2012.

Communication expenses increased $160,000 or 4%, to $4,731,000 from $4,571,000 during fiscal 2012 when compared to the prior year. This increase is primarily due to a temporary duplication in costs necessitated by the replacement of our primary phone system in our headquarters in New York due to fire damage, which occurred during the first quarter of fiscal 2012. Occupancy, equipment and other administrative expenses decreased $863,000, or 17%, to $4,189,000 from $5,052,000 during fiscal 2012 when compared to the prior year. This decrease is primarily due to the reduction of space rented in our New York office after the fire which occurred in the first quarter of fiscal 2012 and other savings on rental costs due to renegotiated leases and the consolidation of some of the Company’s smaller offices upon lease expiration.

Professional fees increased $883,000, or 48% to $2,714,000 from $1,831,000 during fiscal 2012 when compared to the prior year. The increase in professional fees is primarily a result of litigation costs associated with the New York City office rental abatement issue coupled with generally higher legal costs associated with arbitrations and civil matters and the consulting fees related to the trading group that joined the Company in fiscal 2012. The rental abatement issue was resolved in fiscal 2012. Additionally, in fiscal 2011 the Company received reimbursements from its insurance company primarily for legal fees in conjunction with two settlements of approximately $350,000.

Interest expense decreased by $231,000, or 20%, to $916,000 from $1,147,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to the payoff of $4.2 million of debt in March and September 2012, lower amortization of debt discount and lower rates on the remaining interest bearing debt. There was no amortization of debt discount during the second half of fiscal 2012, as it had been fully recorded by the second quarter of 2012 and we satisfied principal aggregating $4.2 million in a note bearing interest at 10% with a $5.0 million note bearing interest at 6% and a $1.0 million note bearing interest at 10% during fiscal 2012.

Taxes, licenses and registration decreased $103,000, or 6%, to $1,536,000 from $1,639,000 during fiscal 2012 compared to 2011. This decrease is not material.

Loss on disposition of unconsolidated joint venture

In April 2012, we relinquished our interest in an unconsolidated joint venture, Opus, resulting in a loss of disposition of such investment of $1,051,000 which was recorded at June 30, 2012. We did not incur such losses during fiscal 2011.

Increase in fair value of derivative liabilities

We did not have any derivative liabilities outstanding during fiscal year 2012. The fair value of derivative liabilities, as computed between measurement dates, increased by approximately $1.6 million during fiscal year 2011. The increase in fair value of derivative liabilities in 2011 was primarily due to an increase in our quoted price per share between measurement dates, which is one of the main assumptions in our computation of derivative liabilities.

The Company reported a net loss of $1,937,000 in fiscal year 2012 compared to a net loss of $4,713,000 in fiscal year 2011. The net loss attributable to common stockholders in fiscal year 2012 was $2,030,000 or $0.08 per common share, as compared to a net loss attributable to common stockholders of $5,127,000, or $0.18 per common share in fiscal year 2011. The net loss attributable to common stockholders for fiscal years 2012 and 2011 reflects $93,000 and

$414,000, respectively, of cumulative preferred stock dividends on the Company's preferred stock.

Non-G.A.A.P. Information for the Three and Nine Months Ended June 30, 2013 Compared with Three and Nine Months Ended June 30, 2012

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 June 30, 2013 and 2012, EBITDA, as adjusted, was $1,170,000 and $1,247,000 respectively. This decrease of $77,000 in the three months ended June 30, 2013 over the same period in 2012 resulted from a general improvement in net income as reported which improved by $194,000 due to higher revenues, improving margins and a decrease in operating expenses as a result of management's focus on cost cutting, offset by a reduction in the adjustment for interest expense of $203,000.

For the nine months ended June 30, 2013 and 2012, EBITDA, as adjusted, was $2,921,000 and $1,269,000 respectively. This improvement of $1,652,000 in the nine months ended June 30, 2013 over 2012 resulted from a general improvement in revenues and net income as reported which improved by $3,460,000 due to higher revenues, improving margins and a decrease in operating expenses as a result of management's focus on cost cutting, offset by a reduction in the adjustment for interest expense of $524,000.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net income (loss), as reported	$805,000	$661,000	$1,258,000	$(2,202,000)
Interest expense	10,000	213,000	240,000	764,000
Taxes	20,000	34,000	128,000	116,000
Depreciation	103,000	122,000	330,000	410,000
Amortization	155,000	155,000	466,000	466,000
EBITDA	1,093,000	1,185,000	2,422,000	(446,000)
Non-cash compensation expense	-	1,000	-	10,000

Non-cash other administrative expense	-	-	125,000	450,000
Forgivable loan write down	77,000	61,000	212,000	204,000
Loss on disposition of joint venture	-	-	-	1,051,000
Loss on investment in unaffiliated entity	-	-	162,000	-
EBITDA, as adjusted	$1,170,000	$1,247,000	$2,921,000	$1,269,000

EBITDA, adjusted for gains or losses on sales of assets, non-cash compensation expense and loss on disposition of joint venture and loss on investment in unaffiliated entity, 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.

Non-G.A.A.P. Information for the Fiscal Year Ended September 30, 2012 Compared with September 30, 2011

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 and changes in fair value of derivative liabilities. 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 fiscal year 2012 and 2011, EBITDA, as adjusted, was $1,529,000 and $119,000, respectively. This improvement of $1,410,000 during fiscal 2012 when compared to 2011 resulted from a general decrease in operating expenses partially offset by a lower decrease in revenues.

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

	Fiscal Year Ended	
	2012	2011
Net loss, as reported	$(1,937,000)	$(4,713,000)
Interest expense	916,000	1,147,000
Taxes	153,000	148,000
Depreciation	533,000	633,000
Amortization	538,000	644,000
EBITDA	203,000	(2,141,000)
Non-cash compensation expense	10,000	265,000
Forgivable loan write-down	265,000	392,000
Loss on disposition of unconsolidated joint venture	1,051,000	-
Change in fair value of derivative liabilities	-	1,603,000
EBITDA, as adjusted	$1,529,000	$119,000

EBITDA, as adjusted for, non-cash compensation expense, forgivable loan write-down and changes in fair value of derivative liabilities, 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

Source of liquidity and capital resources

	Ending Balance at June 30,		Average Balance during first nine months of	
	2013	2012	2013	2012
Cash	$ 14,696,000	$ 6,564,000	$ 9,625,000	$6,631,000
Receivables from broker-dealers and clearing organizations	$ 3,617,000	$ 2,910,000	$ 3,271,000	$2,812,000
Marketable securities	$ 618,000	$ 654,000	$ 1,189,000	$554,000
Accounts payable, accrued expenses and other liabilities	$ 11,662,000	$ 11,648,000	$ 11,648,000	$11,765,000
Convertible notes payable excluding debt discount	$ -	$ 4,533,000	$ 4,533,000	$6,333,000
Subordinated borrowings	$ -	$ -	$ -	$55,000

Source of liquidity and capital resources

At June 30, 2013 and 2012, 81% and 61%, respectively, of our total assets consisted of cash and cash equivalents, receivables from clearing brokers and other broker-dealers and, marketable securities owned. 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. Allocation of cash into marketable securities classes are dependent upon overall market activity, but the majority of our securities owned are in municipal securities and common stock.

The 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. At June 30, 2013, National Securities’ net capital exceeded the requirement by approximately $3,163,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000 and at June 30, 2013, vFinance Investments’ net capital exceeded the requirement by approximately $1,098,000.

Advances, dividend payments and other equity withdrawals from the Company’s broker-dealer subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During the nine month ended June 30, 2013 and 2012, 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.

Our primary sources of liquidity include the sale of our securities and other financing activities and our cash flow from operations. We believe that we have sufficient funds from operations to fund our ongoing operating requirements for the foreseeable future. However, we may need to raise funds to enhance our working capital and use them for strategic purposes. If such need arise, we intend to generate proceeds from either debt or equity financing.

On January 25, 2013, the Company issued 29,450,000 shares of its common stock for gross proceeds of approximately $8.8 million. The Company used the proceeds from the issuance of shares to repay certain outstanding indebtedness and for general corporate, working capital and net capital purposes and associated costs and fees relating to the transaction.

During January 2013, the Company issued 10,000,000 shares of its common stock in satisfaction of obligations under convertible notes aggregating $5,000,000 and repaid senior subordinated notes payable of $2,800,000.

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 $96,000 and $106,000 during the first nine months of fiscal 2013 and 2012, respectively.

Nine months ended June 30, 2013

The decrease in marketable securities as of June 30, 2013 is primarily due to an decrease in the position of municipal securities held for resale by the Company than it had in September 2012. Changes in securities owned, marketable at market value are dependent upon overall market activity and opportunities perceived by the Company. The inrease in accounts payables during the first nine months of fiscal 2013 is due to the timing of certain invoices received at this time of the year.

Cash used in investing activities during the first nine months of fiscal 2013 amounted to $96,000 which was due to the purchase of fixed assets to maintain the Company’s infrastructure. Cash provided by financing activities of $5,575,000 during the first nine months of fiscal 2013 resulted primarily from an issuance of common stock in January 2013 offset by the repayment of the balance of the convertible note payable of $2,800,000 which satisfied all of our remaining obligations under the outstanding notes payable.

Nine months ended June 30, 2012

The increase in other receivables during the nine month period ended June 30, 2012 is primarily due to the increase in receivables associated with investment banking transactions. Changes in securities owned is primarily due to a general increase in securities held for trading as well as increase in the valuation of non-marketable warrants and securities held, which the Company received as compensation for investment banking deals. The decrease in accounts payables during the nine months period ended June 30, 2012 is primarily due to the overall decrease in revenues as compared to the same period in fiscal year 2011.

Cash used in investing activities during the first nine months of fiscal 2012 amounted to $656,000 which was primarily due to the need to complete the funding of an investment in an unconsolidated joint venture of $550,000, resulting from prior obligations and by recurring purchases of computer equipment of $106,000.

Cash provided by financing activities during the first nine months of fiscal 2012 amounted to $910,000 and resulted primarily from an issuance of convertible note payable of $4,000,000 which satisfied our obligations under an outstanding convertible note payable of $3,000,000. Additionally, we made net repayments of $90,000 of our subordinated borrowings during the same period.

Sources of liquidity and capital resources

	Ending Balance September 30,		Average Balance during fiscal	
	2012	2011	2012	2011
Cash	$7,934,000	$6,698,000	$7,316,000	$6,044,000
Receivables from broker-dealers and clearing organizations	3,650,000	2,714,000	3,182,000	3,116,000
Marketable securities	696,000	454,000	575,000	