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

FORM 10-Q

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

For the Quarter Ended March 31, 2014 Commission File Number 001-12629

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

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

410 Park Ave, 14th Floor, New York, NY 10022
(Address including zip code of principal executive offices)
Registrant’s telephone number, including area code: (212) 417-8000

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller Reporting Company ☒

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

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

NATIONAL HOLDINGS CORPORATION
FORM 10-Q
QUARTERLY PERIOD ENDED MARCH 31, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

ASSETS

	March 31, 2014 (Unaudited)	September 30, 2013
Current Assets		
Cash and cash equivalents	$ 21,404,000	$ 19,985,000
Restricted cash	92,000	92,000
Deposits with clearing organizations	1,137,000	1,107,000
Receivables from broker-dealers and clearing organizations	4,332,000	4,296,000
Other receivables, net of allowance for doubtful accounts	2,572,000	1,049,000
Advances to registered representatives - Current portion, net of allowance for uncollectible accounts	727,000	384,000
Securities owned: marketable – at market value	638,000	428,000
Securities owned: nonmarketable – at fair value	53,000	39,000
Prepaid expenes	1,647,000	764,000
Total Current Assets	**32,602,000**	**28,144,000**
Advances to registered representatives - Long term portion	491,000	427,000
Fixed assets, net of accumulated depreciation	799,000	447,000
Intangible assets, net	9,462,000	-
Goodwill	4,464,000	-
Other assets	668,000	493,000
Total Assets	**$ 48,486,000**	**$ 29,511,000**

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2014 (Unaudited)	September 30, 2013
Current Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 19,300,000	$ 13,494,000
Payable to broker-dealers and clearing organizations	13,000	13,000
Securities sold, but not yet purchased, at market value	82,000	15,000
Total Current Liabilities	**19,395,000**	**13,522,000**
Accrued expenses and other liabilities - Long term portion	223,000	192,000
Total Liabilities	**19,618,000**	**13,714,000**
National Holdings Corporation Stockholders' Equity		
Common stock, $.02 par value, 150,000,000 shares authorized; 123,246,888 shares issued and outstanding at March 31, 2014 and 100,580,203 shares issued and outstanding at September 30, 2013	2,465,000	2,012,000
Additional paid-in capital	76,674,000	67,982,000
Accumulated deficit	(50,286,000)	(54,212,000)
Total National Holdings Corporation Stockholders' Equity	28,853,000	15,782,000
Non Controlling Interest	15,000	15,000
Total Stockholders' Equity	28,868,000	15,797,000
Total Liabilities and Stockholders' Equity	**$ 48,486,000**	**$ 29,511,000**

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

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

	Three Month Period Ended March 31,		Six Month Period Ended March 31,	
	2014	**2013**	**2014**	**2013**
Revenues				
Commissions	$ 30,306,000	$ 20,769,000	$ 57,913,000	$ 36,809,000
Principal transactions	5,983,000	4,310,000	9,142,000	6,912,000
Investment banking fees	5,619,000	2,334,000	9,201,000	4,389,000
Interest and dividends	884,000	1,004,000	1,817,000	2,050,000
Transfer fees and clearing services	2,452,000	2,033,000	4,767,000	4,040,000
Investment advisory fees	3,547,000	2,426,000	6,727,000	4,846,000
Tax preparation and accounting fees	3,737,000	-	4,275,000	-
Other	156,000	73,000	636,000	347,000
Total Revenues	**52,684,000**	**32,949,000**	**94,478,000**	**59,393,000**
Operating Expenses				
Commissions, compensation and fees	42,196,000	28,329,000	77,127,000	51,164,000
Clearing fees	805,000	575,000	1,602,000	997,000
Communications	1,191,000	1,149,000	2,331,000	2,267,000
Occupancy expenses	1,073,000	556,000	2,026,000	1,088,000
Equipment rental and other administrative expenses	1,627,000	160,000	2,731,000	128,000
Professional fees	1,384,000	764,000	2,398,000	1,535,000
Depreciation and amortization	622,000	265,000	1,156,000	538,000
Interest	8,000	66,000	24,000	230,000
Taxes, licenses and registration	408,000	369,000	916,000	777,000
Total Operating Expenses	**49,314,000**	**32,233,000**	**90,311,000**	**58,724,000**
Net Income from operations	**3,370,000**	**716,000**	**4,167,000**	**669,000**
Other Expenses				
Loss on investment in unaffiliated entity	-	(162,000)	-	(162,000)
Total Other Expenses	**-**	**(162,000)**	**-**	**(162,000)**
Net Income before Income Tax	**3,370,000**	**554,000**	**4,167,000**	**507,000**
Income tax expense - Current	134,000	60,000	241,000	60,000
Net Income before non-controlling interest	**3,236,000**	**494,000**	**3,926,000**	**447,000**
Net loss attributable to noncontrolling interest	-	-	-	7,000
Net Income attributable to common stockholders	**$ 3,236,000**	**$ 494,000**	**$ 3,926,000**	**$ 454,000**
Net Income attributable to common stockholders - Basic	**$ 0.03**	**$ 0.01**	**$ 0.03**	**$ 0.01**
Net Income attributable to common stockholders - Diluted	**$ 0.03**	**$ 0.01**	**$ 0.03**	**$ 0.01**
Weighted number of shares outstanding - Basic	**123,246,888**	**72,232,218**	**121,503,297**	**49,289,601**
Weighted number of shares outstanding - Diluted	**125,023,088**	**74,743,336**	**123,013,317**	**55,324,608**

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013 AND THE SIX MONTHS ENDED MARCH 31, 2014

	Preferred Stock C		Preferred Stock D		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non-controlling Interest	Total Stockholders' Equity (Deficit)
	Shares	$	Shares	$	Shares	$				
BALANCE, September 30, 2012	34,169	$ 2,551,000	60,000	$ 3,605,000	26,555,572	$ 531,000	$ 46,184,000	$ (55,780,000)	$ 18,000	$ (2,891,000)
Issuance of shares of common stock pursuant to the conversion of Series C Preferred Stock	(34,169)	(2,551,000)	-	-	3,416,691	68,000	2,483,000	-	-	-
Issuance of shares of common stock pursuant to the conversion of Series D Preferred Stock	-	-	(60,000)	(3,605,000)	6,000,000	120,000	3,485,000	-	-	-
Issuance of shares of common stock pursuant to the conversion of Series E Subordinated Note	-	-	-	-	10,000,000	200,000	4,800,000	-	-	5,000,000
Issuance of shares of common stock pursuant to the conversion of certain outstanding Warrants	-	-	-	-	12,951,195	259,000	(259,000)	-	-	-
Issuance of shares of common stock pursuant to Private Placement	-	-	-	-	40,034,928	801,000	10,777,000	-	-	11,578,000
Issuance of shares of common stock pursuant to 2013 Omnibus Stock Option Plan	-	-	-	-	621,817	13,000	227,000	-	-	240,000
Issuance of shares of common stock pursuant to satisfy certain liabilities	-	-	-	-	1,000,000	20,000	293,000	-	-	313,000
Accrue for distribution of remaining equity to non-controlling equity holder	-	-	-	-	-	-	(147,000)	-	-	(147,000)
Fair value of stock options	-	-	-	-	-	-	139,000	-	-	139,000

Net income (loss)	-	-	-	-	-	-	-	1,568,000	(3,000)	1,565,000
BALANCE, September 30, 2013	-	-	-	-	100,580,203	2,012,000	67,982,000	(54,212,000)	15,000	15,797,000
Issuance of shares of common stock pursuant to the acquisition of Gilman & Ciocia					22,666,685	453,000	8,387,000	-	-	8,840,000
Fair value of stock options and restricted stock units					-	-	305,000	-	-	305,000
Net income					-	-	-	3,926,000	-	3,926,000
BALANCE, March 31, 2014		$ -		$ -	123,246,888	$ 2,465,000	$ 76,674,000	$ (50,286,000)	$ 15,000	$ 28,868,000

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

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

	Six Month Period Ended March 31, 2014	Six Month Period Ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,926,000	$ 454,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	1,156,000	535,000
Amortization of forgivable loans to registered representatives	105,000	135,000
Compensatory element of common stock option issuances and restricted stock units	425,000	-
Provision for bad debt	197,000	(97,000)
Net realized and unrealized gain on securities	(368,000)	(18,000)
Non-controlling interest	-	(7,000)
Changes in assets and liabilities		
Deposits with clearing organizations	242,000	-
Receivables from broker-dealers, clearing organizations	1,786,000	78,000
Other receivables	(1,497,000)	(503,000)
Advances to registered representatives	63,000	9,000
Securities owned: marketable - at market value	147,000	(1,358,000)
Securities owned: non-marketable - at fair value	(2,000)	(367,000)
Prepaid expenses	(324,000)	(247,000)
Other assets	(175,000)	166,000
Accounts payable, accrued expenses and other liabilities	(511,000)	1,092,000
Payable to broker dealers and clearing organizations	-	(106,000)
Securities sold, but not yet purchased, at market	67,000	212,000
Net cash provided by (used in) operating activities	**5,237,000**	**(22,000)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition-related cash acquired	1,654,000	-
Purchase of fixed assets	(72,000)	(36,000)
Net cash provided by (used in) investing activities	**1,582,000**	**(36,000)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	-	(2,800,000)
Proceeds from issuance of common stock	-	8,420,000
Repayment of certain liabilities of Gilman	(5,400,000)	-
Net cash (used in) provided by financing activities	**(5,400,000)**	**5,620,000**
NET INCREASE IN CASH	**1,419,000**	**5,562,000**
CASH BALANCE		
Beginning of the period	**19,985,000**	**7,934,000**
End of the period	**$ 21,404,000**	**$ 13,496,000**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 24,000	$ 333,000
Income taxes	$ 33,000	$ -
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired and liabilities assumed pursuant to acquisition:		
Tangible assets acquired	$ 5,587,000	$ -
Identifiable intangible assets acquired	$ 10,417,000	$ -
Goodwill	$ 4,464,000	$ -
Liabilities assumed	$ 11,628,000	$ -
Stock issued persuant to Gilman Ciocia acquisition	$ 8,840,000	$ -
Deemed distribution to noncontrolling interest	$ -	$ 146,000
Fair value of shares of common stock to satisfy liabilities	$ -	$ 125,000
Conversion of preferred stock to shares of common stock	$ -	$ 6,156,000
Conversion of convertible debt to shares of common stock	$ -	$ 5,000,000
Conversion of warrants to shares of common stock	$ -	$ 259,000

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

NOTE 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of National Holdings Corporation, a Delaware corporation (“National” or the “Company”), have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated financial statements as of March 31, 2014 and for the six months ended March 31, 2014 and 2013 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the respective fiscal years. The accompanying consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Merger

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

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

NOTE 2. CONSOLIDATION

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

Through its Broker-Dealer and Registered Investment Advisory Subsidiaries, the Company (1) offers full service retail brokerage to approximately 125,000 retail, high net worth individuals and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engages in trading securities, including making markets in approximately 6,000 micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Its Broker-Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations on a fully disclosed basis. The Broker-Dealer Subsidiaries are registered with the Securities and Exchange Commission ("SEC"), are members of the FINRA, the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA").

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

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

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

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

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

The Company’s indirect wholly owned subsidiary, GC Capital Corporation, a Washington corporation ("GC"), provides a licensed mortgage brokerage business in the State of Florida.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Furthermore, the Company has been named as a defendant in various customer arbitrations. These claims result from the actions of brokers affiliated with the Company. The Company may have established liabilities for potential losses from such complaints, legal actions, government investigations, and proceedings where necessary in accordance with GAAP. In establishing these liabilities, management uses judgment to determine the probability that losses will be incurred and a reasonable estimate of the amount of losses. In making these decisions, management bases its judgments on our knowledge of the situations, consultations with legal counsel and our historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect our estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, we cannot predict with certainty the eventual loss or range of loss related to such matters. If managements judgment proves to be incorrect, our liability for losses and contingencies may not accurately reflect actual losses that result from these actions, which could materially affect results in the period other expenses are ultimately determined. As of March 31, 2014 and September 30, 2013, the Company accrued approximately $722,000 and $250,000, respectively for these matters. These claims may be covered by our errors and omissions insurance policy. While we will vigorously defend ourselves in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on our financial position.

Revenue Recognition

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Fixed Assets

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

Income Taxes

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

Fair Value of Financial Instruments

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

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

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

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of March 31, 2014, and September 30, 2013, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the fair value hierarchy.

The Company had securities owned- nonmarketable including warrants it received as partial compensation from clients for investment banking services as Level 2 assets as of March 31, 2014 and September 30, 2013.

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

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

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

Impairment of Long-Lived Assets

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

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

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

Common Stock Purchase Warrants

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

Net Income per Common Share

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

	Three Month Period Ended March 31,		Six Month Period Ended March 31,	
	2014	2013	2014	2013
Numerator:				
Net income	$ 3,236,000	$ 494,000	$ 3,926,000	$ 454,000
Denominator:				
Denominator for basic earnings per share--weighted average shares	123,246,888	72,232,218	121,503,297	49,289,601
Effect of dilutive securities:				
Assumed conversion of dilutive options	498,077	2,511,118	266,388	6,035,007
Assumed conversion of dilutive warrants	34,491	-	-	-
Assumed conversion of unvested restricted stock units	1,243,632	-	1,243,632	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	125,023,088	74,743,336	123,013,317	55,324,608
Income per share:				
Net Income available to common stockholders				
Basic	$ 0.03	$ 0.01	$ 0.03	$ 0.01
Diluted	$ 0.03	$ 0.01	$ 0.03	$ 0.01

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

	Three month period ended March 31, 2014	Three month period ended March 31, 2013	Six month period ended March 31, 2014	Six month period ended March 31, 2013
Convertible notes payable	-	811,480	-	7,850,828
Options	11,801,923	1,065,000	12,033,612	1,147,334
Warrants	862,264	6,813,152	896,755	10,703,047
	12,664,187	8,689,632	12,930,367	19,701,209

The anti-dilutive common shares outstanding at March 31, 2014 and 2013 are as follows:

	March 31, 2014	March 31, 2013
Options	12,033,612	1,000,000
Warrants	896,755	1,909,550
	12,930,367	2,909,550

Stock-Based Compensation

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

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

Market Risk

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

Entering into Short Positions

A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security (or a security exchangeable) at a later date at a lower price. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss, although this potential loss is mitigated in the case of debt securities by the nature of such securities.

Concentrations of Credit Risk

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

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

Other Receivables

The Company extends unsecured credit in the normal course of business to certain business clients and unconsolidated affiliates. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual relationship. The Company periodically receives payment from various clients for fees earned from investment banking deals, tax preparation fees and other transactions. These amounts are usually collected within sixty to ninety days and as of March 31, 2014 the Company had an allowance for doubtful accounts of $263,000, primarily attributable to a recent default on a forgivable note from a registered representative that the Company is attempting to collect and the tax preparation fees that may be deemed uncollectable. Additionally, other amounts due from unrelated parties are assessed and usually collected within thirty to sixty days.

Advances to Registered Representatives

Advances are given to certain registered representatives as an incentive for their affiliation with the Broker-Dealer Subsidiaries. The representative signs an independent contractor agreement with the Broker-Dealer Subsidiaries for a specified term, typically a three-year period. The advance is then amortized on a straight-line basis or based on a percentage of production over the life of the broker's agreement with the Broker-Dealer Subsidiaries, and is included in commission expense in the accompanying consolidated statements of operations. In the event a representative's affiliation terminates prior to the fulfillment of their contract, the representative is required to repay the unamortized balance. At March 31, 2014 and September 30, 2013 there was approximately $253,000 and $13,000, respectively, of allowance for uncollectable amounts associated with these receivables.

Securities Owned

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

Prepaid Expenses

Prepaid Expenses consist primarily of prepaid insurance and prepaid services.

Other Assets

Other assets consist primarily of lease deposits.

Legal and Other Contingencies

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

Reclassifications

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

Recently Adopted Accounting Guidance

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

The new guidance was effective for the Company beginning January 1, 2014 and did not have a material impact on the Company's financial statements upon adoption.

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

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors
b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

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

NOTE 4- BUSINESS COMBINATION

On October 15, 2013, the Company completed its acquisition of all of the issued and outstanding shares of Gilman. Pursuant to the acquisition agreements, the Company issued 22,666,685 shares of its common stock to the stockholders of Gilman. Additionally, the Company satisfied the obligations pursuant to certain liabilities of Gilman in consideration of $5,400,000. In August 2013, the Company issued 10,583,330 shares of its common stock pursuant to a private placement which generated net proceeds of $3,016,000 to partially finance the $5,400,000 of indebtedness of Gilman paid off by the Company at the closing of the merger. Additionally, the Company granted 1,950,000 options to certain employees of Gilman whose employment agreements were assumed by the Company. The acquisition of Gilman has been accounted for as a business combination effective October 16, 2013, the results of Gilman's operations are included in the Company's consolidated financial statements.

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

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

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

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

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

The following table presents the intangible assets subject to amortization and the carrying amount as of March 31, 2014 and the respective estimated useful lives:

Intangible asset		Preliminary Fair Value		Accumulated Amortization		Carrying Value	Estimated Useful Life (years)
Customer Relationships	$	8,334,000	$	(763,000)	$	7,571,000	5
Brand		2,083,000		(192,000)		1,891,000	5
	$	10,417,000	$	(955,000)	$	9,462,000	

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

Year ended September 30,		
2014	$	696,000
2015		2,083,000
2016		2,083,000
2017		2,083,000
2018		2,083,000
Thereafter		434,000
	$	9,462,000

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

	(Unaudited) Three Month Period Ended March 31, 2014	(Unaudited) Three Month Period Ended March 31, 2013	(Unaudited) Six Month Period Ended March 31, 2014	(Unaudited) Six Month Period Ended March 31, 2013
Revenues	$ 52,684,000	$ 43,905,000	$ 96,546,000	$ 78,480,000
Net Income	$ 3,236,000	$ 1,147,000	$ 3,571,000	$ 237,000
Basic earnings per share	$ 0.03	$ 0.01	$ 0.03	$ 0.00
Diluted earnings per share	$ 0.03	$ 0.01	$ 0.03	$ 0.00

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

The amount of revenues and income of Gilman since the acquisition date included in the statement of operations for the three and six months ended March 31, 2014 are as follows:

	Three-Month Period Ended March 31, 2014	Six-Month Period Ended March 31, 2014
Revenues	$ 10,759,000	$ 18,037,000
Net income	$ 1,098,000	$ 949,000

NOTE 5. CLEARING AGREEMENTS

NSC and vFinance Investments have separate but coterminous clearing agreements with NF S with a termination date of February 1, 2015. The clearing agreement includes a termination fee if either broker dealer terminates the agreement without cause. Each of NSC and vFinance Investments currently has clearing agreements with NFS, COR, ICBC, Rosenthal and RJO. In March 2014, Southwest Securities terminated our clearing agreement without cause and before any business was conducted, reportedly due to a change in the clearing firms business model.

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

At March 31, 2014 and September 30, 2013, the receivables of $4,332,000 and $4,296,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions. At March 31, 2014 and September 30, 2013, the amounts payable to broker dealers and clearing organizations of $13,000 and $13,000, respectively, represent the amount owed to I.C.B.C. for fees on transactions and payables.

NOTE 7. OTHER RECEIVABLES

At March 31, 2014 and September 30, 2013, the Company had other receivables net of allowance for uncollectable accounts of $2,572,000 and $1,049,000, respectively. These receivables in 2014 consist of approximately $665,000 in banking receivables from other broker dealers, $319,000 in commission trails from retail brokerage activity and $1,900,000 in receivables for tax preparation and accounting services as a result of the addition of Gilman's services. In 2013, these receivables primarily consisted of investment banking receivables from broker dealers.

NOTE 8. ADVANCES TO REGISTERED REPRESENTATIVES

An analysis of advances to registered representatives for the quarter ended March 31, 2014 is as follows:

		Advances to Registered Representative
Balance, December 31, 2013	$	1,353,000
Advances		116,000
Amortization or repayment of advances		(54,000)
Provision for uncollectable accounts		(197,000)
Balance, March 31, 2014	$	1,218,000

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

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

The following tables show the fair market values of securities owned by the Company, and securities sold but not yet purchased by the Company, as of March 31, 2014 and September 30, 2013:

Fair Value Measurements

As of March 31, 2014 **Securities owned at fair value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Corporate stocks	$ 195,000	-	-	$ 195,000
Mutual funds	61,000			61,000
Fixed income securities	382,000	-	-	382,000
Restricted stock and warrants	-	53,000	-	53,000
	$ 638,000	$ 53,000	$ -	$ 691,000

Securities sold, but not yet purchased at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income securities	$ 82,000	-	-	$ 82,000
	$ 82,000	$ -	$ -	$ 82,000

As of September 30, 2013 **Securities owned at fair value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Corporate stocks	$ 428,000	-	-	$ 428,000
Restricted stock and warrants	-	39,000	-	39,000
	$ 428,000	$ 39,000	$ -	$ 467,000

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

NOTE 10. FIXED ASSETS

Fixed assets as of March 31, 2014 and September 30, 2013, respectively, consist of the following:

	March 31, 2014	September 30, 2013	Estimated Useful Lives (years)
Equipment	$ 2,746,000	$ 2,668,000	5
Furniture and fixtures	572,000	532,000	5
Leasehold improvements	1,422,000	1,074,000	Lesser of useful life or term of lease
Capital Leases (Primarily composed of Computer Equipment)	2,598,000	2,510,000	5
	7,338,000	6,784,000	
Less accumulated depreciation and amortization	(6,539,000)	(6,337,000)	
Fixed assets - net	$ 799,000	$ 447,000	

Depreciation expense for the six months ended March 31, 2014 and 2013 was $100,000 and $140,000, respectively.

NOTE 11. OTHER ASSETS

At March 31, 2014 and September 30, 2013, the Company had other assets of $668,000 and $493,000, respectively, primarily comprised of security deposits for the Company’s offices.

NOTE 12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

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

	March 31, 2014	September 30, 2013
Commissions payable	$ 12,416,000	$ 9,141,000
Deferred clearing fee credits	90,000	138,000
Telecommunications vendors payable	198,000	166,000
Legal payable	1,138,000	584,000
Deferred rent payable	231,000	220,000
Accrued compensation	519,000	195,000
Settlements	612,000	223,000
Capital lease liability	69,000	108,000
Regulatory fees	514,000	485,000
Other vendors	3,736,000	2,426,000
Total	$ 19,523,000	$ 13,686,000

NOTE 13. COMMITMENTS AND CONTINGENCIES

Litigation and Regulatory Matters

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

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

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

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

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

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately $17,710,000. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and based on discussions with counsel believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at March 31, 2014 and September 30, 2013, are approximately $722,000 and $250,000 (inclusive of legal fees incurred to date and estimated claims), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of $318,000 and 578,000 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 14. RELATED PARTY TRANSACTIONS

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

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

M. Klein & Company was engaged during the fiscal year ended 2013 to perform certain evaluation services and to advise the Board on corporate actions. The principal officer engaged to conduct these services is the brother of the Mark, D. Klein, the Company’s Chief Executive Officer and Co-Chairman of the Board. Mr. Klein received no direct or indirect compensation as a result of this engagement. The total fees accrued for these services in the six months ended March 31, 2014 were $90,000 and no fees were paid in the same period in 2012.

NOTE 15. NET CAPITAL REQUIREMENTS

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

NSC has elected to use the alternative standard method permitted by the Rule. This requires that NSC maintain minimum net capital equal to the greater of $100,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes NSC from having to calculate a ratio of aggregate indebtedness to net capital. At March 31, 2014, National Securities had net capital of approximately $6,072,000 which was approximately $5,972,000 in excess of its required net capital of $100,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000. In addition to the net capital requirements, vFinance Investments is required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At March 31, 2014, vFinance Investments had net capital of approximately $2,866,000, which was approximately $1,866,000 in excess of its required net capital of $1,000,000, and its percentage of aggregate indebtedness to net capital was 162.7%. The Broker-Dealer Subsidiaries qualify under the exemptive provisions of Rule 15c3-3 which relates to the custody of securities for the account of customers pursuant to Section (k)(2)(ii) of the Rule as none of them carry security accounts of customers or perform custodial functions related to customer securities.

Prime Capital Services, a broker dealer subsidiary, requested a reduction of its minimum net capital requirement that was approved on January 2, 2014. This approval reduced the required maintain minimum regulatory net capital of $100,000 to $5,000. The ratio of aggregate indebtedness to net capital, as defined, shall not exceed the greater of 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). Prime Capital filed a BDW with the SEC which was approved on March 3, 2014. On March 3, 2014, Prime Capital Services filed its final FOCUS Report on form X-17A-5 reflecting that it had net capital of approximately 343,000, which was approximately $338,000 in excess of its required net capital of $5,000 and its percentage of aggregate indebtedness to net capital was 44.0%. All accounts and registered representatives of Prime Capital Services were transferred in accordance with Rule 1017 to National Securities in November 2013.

Advances, dividends from subsidiaries and other equity withdrawals from the Broker-Dealer Subsidiaries are restricted by the regulations of the SEC, and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company.

NOTE 16. EMPLOYEE BENEFITS

In September 2011, the Company created a new defined contribution 401(k) plan (the “Plan”) merging the two plans originally formed prior to the merger of National and vFinance effective October 1, 2011, (the “Terminated Plans”). Under the Plan, employees can elect to defer up to 75% of eligible compensation, subject to certain limitations, by making voluntary contributions to the Plan. As a result of the Plan’s larger size, the Company was able to eliminate all administrative costs to the Company, as well as offer participants a larger selection of investment choices. The Company’s contributions are made at the discretion of the Board of Directors. The Company made no contributions to the Plan or the Terminated Plan during the three months ended March 31, 2014 and 2013.

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

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

OVERVIEW

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

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

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

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

As of March 31, 2014, we had approximately 1,100 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our 32 Company offices located in New York, New Jersey, Florida, Washington and Illinois branches, the Company has approximately 111 other registered offices, owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses.

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

Economic Overview and Impact of Financial Market Events

Despite the fact during the quarter ending March 31, 2014, the various gauges of the US economy continued to send mixed messages, the S & P 500 closed the quarter in close proximity to all-time highs. During the quarter, the US real GDP increased by 0.1%, the unemployment rate decreased to 6.3%, primarily from a reduction in the labor force and S&P 500 operating earnings are on track to show over 6% year-over-year growth. Meanwhile, the inflation on core prices remain somewhat low statistically, but import prices have increased by 0.6% in March 2014. The Federal Reserve is reducing its total monthly bond purchases from $55 billion to $45 billion, yet the interest rates were left unchanged and credit conditions for individuals and small businesses remain challenging. If market participants do not acquire similar volumes of long-term bonds than the Federal Reserve used to, there might be a slight increase in long-term interest rates, which would make equity securities less attractive. While corporate profits of US companies have consistently met or exceeded expectations for multiple quarters, some companies have shown less than anticipated increase in profits, which makes the equity securities markets more volatile. Continued concerns over economic growth and the labor participation rate will add some volatility to the equity securities market. While the longer-term outlook of the European debt crisis is uncertain, we continue to maintain nominal direct exposure to sovereign debt securities.

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

If the market participants are bearish or they believe that the volatility of such markets is too high, it might lead to a reduction in the volume of transactions of US equities. 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.

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

Growth Strategy

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

Key Indicators of Financial Performance for Management

Management regularly 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.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Summary

The Company’s second quarter of fiscal year 2014 resulted in a substantial increase in revenues of 60% and a increase in operating expenses of 53% resulting in an improved margin of approximately7%. Contributing factors include the merger with Gilman, a more diversified product base, an increase in assets under management firm wide combined with a better performance by our brokers, in conjunction with favorable market conditions. All business units saw an increase during this current quarter. As a result, the Company reported after tax net income of $3,236,000 compared with $494,000 for the quarter ended March 31, 2014 and 2013, respectively.

Revenues

	Three Months Ended March 31,		Increase (Decrease)	
	2014	2013	Amount	Percent
Commissions	$ 30,306,000	$ 20,769,000	$ 9,537,000	46%
Principal transactions	5,983,000	4,310,000	1,673,000	39%
Investment banking fees	5,619,000	2,334,000	3,285,000	141%
Interest and dividends	884,000	1,004,000	(120,000)	-12%
Transfer fees and clearing services	2,452,000	2,033,000	419,000	21%
Investment advisory fees	3,547,000	2,426,000	1,121,000	46%
Tax preparation and accounting fees	3,737,000	-	3,737,000	-%
Other	156,000	73,000	83,000	114%
Total Revenues	**$ 52,684,000**	**$ 32,949,000**	**$ 19,735,000**	60%

Total revenues increased $19,735,000, or 60%, in the second quarter of fiscal year 2014 to $52,684,000 from $32,949,000 in the second quarter of fiscal year 2013. The increase in revenues is partly a result of overall better production by the Company’s registered representatives in a strong market environment, combined with an increased base of assets under management and partly due to the increase in registered representatives, investment advisors, insurance sales representatives and accountants as a result of the merger with Gilman.

Commission revenue increased $9,537,000, or 46%, to $30,306,000 from $20,769,000 during the second quarter of fiscal year 2014 compared with the same period in fiscal year 2013, which is a result of the increase in registered representatives from the merger with Gilman as well increase activity by our registered representatives in very favorable market conditions.

Principal transactions, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, increased $1,673,000, or 39%, to $5,983,000 from $4,310,000 during the second quarter of fiscal year 2014 compared with the same period in fiscal year 2013. The increase is primarily due to more favorable trading conditions including higher market volumes, affecting our market making and fixed income trading activities.

Investment banking revenue increased $3,285,000, or 141%, to $5,619,000 from $2,334,000 during the second quarter of 2014 compared to the same period in fiscal year 2013. This increase is attributable to a higher number of successful capital raising events for clients, in addition to more advisory and consulting services provided during the quarter.

Interest and dividend income decreased by $120,000, or 12%, to $884,000 from $1,004,000 in the second quarter of fiscal year 2014 compared with the same period in fiscal year 2013. The decrease is primarily attributable to somewhat lower customer margin account balances and lower customer free cash balances during the quarter.

Transfer fees and clearance services increased $419,000, or 21%, to $2,452,000 from $2,033,000 in the second quarter of fiscal year 2014 compared with the same period in fiscal year 2013. This increase is primarily due to the increase in total registered representatives and the number of transactions charged to those associates as a result of the merger with Gilman and the increased productivity of our registered representatives.

Investment advisory fees increased $1,121,000, or 46%, to $3,547,000 from $2,426,000 in the second quarter of fiscal year 2014 compared to the same period in fiscal year 2013. The increase is due to an increase in total assets under management resulting from the acquisition of accounts advised by the newly acquired Gilman subsidiary, AFP.

Tax preparation and accounting fees amounted to $3,737,000 in 2014. This source of revenue is new to the Company in 2014 and is due to the merger with Gilman.

Other revenue, which includes miscellaneous fee income increased $83,000, or 114%, to $156,000 from $73,000 during the second quarter of fiscal year 2014 compared to the first quarter of fiscal year 2013. The increase is due to the increase in overall business activity as a result of the merger with Gilman.

Operating Expenses

In comparison with the 60% increase in total revenues, total expenses increased only 53%, or $17,081,000, to $49,314,000 for the second quarter of fiscal year 2014 compared to $32,233,000 in the second quarter of fiscal year 2013. The increase in total expenses is primarily as a result of the increase in commissions, compensation and fees, but with an improvement in margin of approximately 9%. This margin improvement is partially as a result of the Gilman business units having a lower payout percentage on average. As anticipated by Management, the Company's operating costs increased as a result of the increase in revenues as well as the merger with Gilman, which enabled the Company to achieve higher revenues and increased profit margins.

	Three Months Ended March 31,		Increase (Decrease)	
	2014	2013	Amount	Percent
Commissions, compensation and fees	42,196,000	28,329,000	$ 13,867,000	49%
Clearing fees	805,000	575,000	230,000	40%
Communications	1,191,000	1,149,000	42,000	4%
Occupancy expenses	1,073,000	556,000	517,000	93%
Equipment rental and other administrative expenses	1,627,000	160,000	1,467,000	917%
Professional fees	1,384,000	764,000	620,000	81%
Depreciation and amortizaiton	622,000	265,000	357,000	135%
Interest	8,000	66,000	(58,000)	-88%
Taxes, licenses and registration	408,000	369,000	39,000	11%
	$ 49,314,000	$ 32,233,000	$ 17,081,000	53%

Commission, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as base compensation to our employees, brokers, and support staff, increased by $13,867,000, or 49%, to $42,196,000 from $28,329,000 for the second quarter of fiscal year 2014 compared to the same quarter of fiscal year 2013. The increase is directly attributable to the increase in revenues resulting from the merger with Gilman and the favorable market conditions. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating $54,000 and $60,000 for the second quarter of fiscal year 2014 and 2013, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Employee compensation includes the amortization of the fair value associated with stock based compensation of $217,000 and $0 for the three months ended March 31, 2014 and 2013, respectively.

Clearing fees increased $230,000, or 40%, to $805,000 from $575,000 in the second quarter of fiscal year 2014 compared with the second quarter of fiscal year 2013. This increase is commensurate with the increase in transaction volumes and clearance service revenue.

Communications expenses increased by $42,000, or 4% to $1,191,000 from $1,149,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase is primarily due to the merger with Gilman.

Occupancy expenses increased $517,000, or 93%, to $1,073,000 from $556,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase is primarily attributable to the rent expense associated with the addition of 27 Company offices and the related utilities as a result of the merger with Gilman.

Equipment rental and other administrative expenses increased $1,467,000, or 917%, to $1,627,000 from $160,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase is primarily attributable to general office related expenses such as equipment operating leases, advertising, general insurance, office supplies, professional dues and subscriptions as a result of the merger with Gilman.

Professional fees increased $620,000, or 81% to $1,384,000 from $764,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase is attributed to the Gilman merger and other general corporate matters in addition to the continued cost of defense associated with various arbitrations.

Depreciation and amortization expenses increased $357,000, or 135%, to $622,000 from $265,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase is primarily attributable to amortization of the intangibles acquired in the merger with Gilman.

Interest expense decreased by $58,000, or 88%, to $8,000 from $66,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. The decrease is primarily due to the Company's Recapitalization which allowed for the repayment of all outstanding debt in January of 2013.

Taxes, licenses and registration increased $39,000, or 11%, to $408,000 from $369,000 in the second quarter of fiscal year 2014 as compared to the second quarter of fiscal year 2013. This increase in taxes, licenses and registration is primarily due to the merger with Gilman, and the transfer of its registered personnel to National Securities.

Six Months Ended March 31, 2014 Compared to Six Months Ended March 31, 2013

Summary

The Company's first six months of fiscal year 2014 resulted in a substantial increase in revenues of 59% with only a 54% increase in operating expenses, resulting in an improved margin of approximately 6%. Contributing factors to the improvement in revenues include the merger with Gilman, a more diversified product base, an increase in assets under management firm wide combined with a better performance by our brokers, in conjunction with very favorable market conditions. All business units saw a substantial increase in revenues during this first six months. As a result, the Company reported after tax net income of $3,926,000 compared with $454,000 for the six months ended March 31, 2014 and 2013, respectively.

	Six Months Ended March 31,		Increase (Decrease)	
	2014	2013	Amount	Percent
Commissions	$ 57,913,000	$ 36,809,000	$ 21,104,000	57%
Principal transactions	9,142,000	6,912,000	2,230,000	32%
Investment banking fees	9,201,000	4,389,000	4,812,000	110%
Interest and dividends	1,817,000	2,050,000	(233,000)	-11%
Transfer fees and clearing services	4,767,000	4,040,000	727,000	18%
Investment advisory fees	6,727,000	4,846,000	1,881,000	39%
Tax preparation and accounting fees	4,275,000	-	4,275,000	-%
Other	636,000	347,000	289,000	83%
Total Revenues	**$ 94,478,000**	**$ 59,393,000**	**$ 35,085,000**	59%

Revenues

Total revenues increased $35,085,000, or 59%, in the first six months of fiscal year 2014 to $94,478,000 from $59,393,000 in the same period of fiscal year 2013. The increase in revenues is partly a result of overall better production by the Company's registered representatives in a strong market environment, combined with an increased base of assets under management and partly due to the increase in registered representatives, investment advisors, insurance sales representatives and accountants as a result of the merger with Gilman.

Commission revenue increased $21,104,000, or 57%, to $57,913,000 from $36,809,000 during the first six months of fiscal year 2014 as compared with the same period in fiscal year 2013. This increase is attributable to the increase in registered representatives as a result of the merger with Gilman, in conjunction with favorable market conditions.

Principal transactions, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, increased $2,230,000, or 32%, to $9,142,000 from $6,912,000 during the first six months of fiscal year 2014 as compared with the same period in fiscal year 2013. The increase is primarily due to more favorable trading conditions including higher market volumes, affecting our market making and fixed income trading activities.

Investment banking revenue increased $4,812,000, or 110% to $9,201,000 from $4,389,000 during the first six months of 2014 as compared to the same period in fiscal year 2013. This increase was attributable to having more capital raising transactions, in addition to providing more advisory and consulting services.

Interest and dividend income decreased by $233,000, or 11%, to $1,817,000 from $2,050,000 in the first six months of fiscal year 2014 as compared with the same period in fiscal year 2013. The decrease is primarily attributable to lower customer margin account balances and lower customer free cash balances.

Transfer fees and clearance services increased $727,000, or 18%, to $4,767,000 from $4,040,000 in the first six months of fiscal year 2014 as compared within the first six months of fiscal year 2013. This was primarily due to the increase in registered representatives and the number of transactions charged to those associates as a result of the merger with Gilman.

Investment advisory fees increased $1,881,000, or 39%, to $6,727,000 from $4,846,000 during the first six months of fiscal year 2014 as compared to the first six months of fiscal year 2013. The increase is due an increase in total assets under management resulting from the acquisition of accounts advised by the newly acquired Gilman subsidiary, Asset & Financial Planning, Ltd.

Tax preparation and accounting fees amounted to $4,275,000 for the first six months of fiscal 2014. This source of revenue is new to the Company in 2014 and is due to the merger with Gilman.

Other revenue, which includes miscellaneous fee income increased $289,000, or 83%, to $636,000 from $347,000 during the first six months of fiscal year 2014 as compared to the first quarter of fiscal year 2013. The increase is due to the increase in overall business activity as a result of the merger with Gilman.

Operating Expenses

In comparison with the 59% increase in total revenues, total expenses increased 54%, or $31,587,000, to $90,311,000 for the first six months of fiscal year 2014 compared to $58,724,000 in the first six months of fiscal year 2013. The increase in total expenses is consistent with the increase in revenues brought about by the merger with Gilman Ciocia and overall the incremental increase in the variable costs associated with the higher revenues resulting from the better market conditions. As anticipated by Management, the Company's operating costs increased as a result of the increase in revenues as well as the merger with Gilman, which enabled the Company to achieve higher revenues and increased profit margins.

	Six Months Ended March 31,		Increase (Decrease)	
	2014	2013	Amount	Percent
Commissions, compensation and fees	77,127,000	51,164,000	$ 25,963,000	51%
Clearing fees	1,602,000	997,000	605,000	61%
Communications	2,331,000	2,267,000	64,000	3%
Occupancy expenses	2,026,000	1,088,000	938,000	86%
Equipment rental and other administrative expenses	2,731,000	128,000	2,603,000	2034%
Professional fees	2,398,000	1,535,000	863,000	56%
Depreciation and amortizaiton	1,156,000	538,000	618,000	115%
Interest	24,000	230,000	(206,000)	-90%
Taxes, licenses and registration	916,000	777,000	139,000	18%
	$ 90,311,000	$ 58,724,000	$ 31,587,000	54%

Commission, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as base compensation to our employees, brokers, and support staff, increased by $25,963,000, or 51%, to $77,127,000 from $51,164,000 for the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. The increase is primarily attributable to the increase in revenues and the merger with Gilman. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating $105,000 and $135,000 for the first six months of fiscal year 2014 and 2013, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Employee compensation includes the amortization of the fair value associated with stock based compensation of $427,000 and $0 for the six months ended March 31, 2014 and 2013, respectively.

Clearing fees increased $605,000, or 61%, to $1,602,000 from $997,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. This increase is commensurate with the increase in transaction volumes and clearance service revenue in conjunction with the merger with Gilman.

Communications expenses increased by $64,000, or 3% to $2,331,000 from $2,267,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. This increase is primarily due to the merger with Gilman.

Occupancy expenses increased $938,000, or 86%, to $2,026,000 from $1,088,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. This increase is primarily attributable to an increase in rent, amortization of intangibles, advertising, general insurance, office supplies and professional dues and subscriptions primarily as a result of the merger with Gilman.

Equipment rental and other administrative expenses increased $2,603,000, or 2,034%, to $2,731,000 from $128,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. This increase is primarily attributable to general office related expenses such as equipment operating leases, advertising, general insurances, office supplies, professional dues and subscriptions as a result of the merger with Gilman.

Professional fees increased $863,000, or 56%, to $2,398,000 from $1,535,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. This increase is attributed to continued cost of defense associated with various arbitrations as well as legal and other professional costs associated with the Gilman merger and other general corporate matters.

Depreciation and amortization expenses increased $618,000, or 115%, to $1,156,000 from $538,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013.This increase is primarily attributable to amortization of the intangibles acquired in the merger with Gilman.

Interest expense decreased by $206,000, or 90%, to $24,000 from $230,000 in the first six months of fiscal year 2014 as compared to the same period in fiscal year 2013. The decrease is primarily due to the Company's Recapitalization which allowed for the repayment of all outstanding debt in March and June 2013.

Taxes, licenses and registration increased $139,000, or 18%, to $916,000 from $777,000 in the first six months of fiscal year 2014 compared to the same period in fiscal year 2013. This increase in taxes, licenses and registration is primarily due to the merger with Gilman, and the transfer of its registered personnel to National Securities.

NON-G.A.A.P. INFORMATION

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

For the three months ended March 31, 2014 and 2013, EBITDA, as adjusted, was $4,271,000 and $1,150,000 respectively. This increase of $3,121,000 in the three months ended March 31, 2014 over the same period in 2013 resulted from a significant improvement in net income as reported, which improved by $2,742,000 due to higher revenues resulting from both the Gilman merger and more favorable market conditions, improving margins and a decrease in operating expenses as a percentage of revenues, as a result of management's focus on cost cutting.

For the six months ended March 31, 2014 and 2013, EBITDA, as adjusted, was $5,942,000 and $1,627,000, respectively. This improvement of $4,315,000 in the six months ended March 31, 2014 over 2013 resulted from a significant improvement in revenues and net income as reported which improved by $3,432,000 due to higher revenues resulting from both the Gilman merger and more favorable market conditions, improving margins and a decrease in operating expenses as a percentage of revenues, as a result of management's focus on cost cutting, offset by a reduction in the adjustment for interest expense of $206,000.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Net income, as reported	$ 3,236,000	$ 494,000	$ 3,926,000	$ 454,000
Interest expense	8,000	66,000	24,000	230,000
Income taxes	134,000	88,000	304,000	108,000
Depreciation	101,000	110,000	201,000	227,000
Amortization	521,000	155,000	955,000	311,000
EBITDA	4,000,000	913,000	5,410,000	1,330,000
Non-cash compensation expense	217,000	-	427,000	-
Forgivable loan amortization	54,000	75,000	105,000	135,000
Loss on investment in uncolsoilidate entity	-	162,000	-	162,000
EBITDA, as adjusted	$ 4,271,000	$ 1,150,000	$ 5,942,000	$ 1,627,000

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

Liquidity and Capital Resources

	Ending Balance at March 31,		Average Balance during first half of	
	2014	2013	2014	2013
Cash	$ 21,404,000	$ 13,946,000	$ 20,694,500	$ 10,940,000
Receivables from broker-dealers and clearing organizations	4,332,000	3,572,000	4,314,000	3,611,000
Marketable securities	638,000	2,072,000	533,000	1,384,000
Accounts payable, accrued expenses and other liabilities	19,523,000	12,657,000	17,110,500	12,109,000
Payable to broker-dealers and clearing organizations	13,000	13,000	13,000	13,000
Convertible notes payable excluding debt discount	-	-	-	4,533,333
Subordinated borrowings	-	-	-	666,667

We maintain a highly liquid balance sheet. At March 31, 2014 and 2013, 54% and 82%, respectively, of our total assets consisted of cash, marketable securities owned and receivables from clearing brokers and other broker-dealers. The level of cash used in each asset class is subject to fluctuation based on market volatility, revenue production and trading activity in the marketplace. Additionally, at September 30, 2013, we had approximately $5.4 million in cash which was eventually disbursed on October 15, 2013, pursuant to our merger agreement with Gilman.

National Securities has elected to use the alternative standard method permitted by the Rule 15c3-3. This requires that National Securities maintain minimum net capital equal to the greater of $100,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes National Securities from having to calculate a ratio of aggregate indebtedness to net capital. At March 31, 2014, National Securities had net capital of approximately $6,072,000 which was approximately $5,972,000 in excess of its required net capital of $100,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000. In addition to the net capital requirements, vFinance Investments is required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At March 31, 2014, vFinance Investments had net capital of approximately $2,866,000, which was approximately $1,866,000 in excess of its required net capital of $1,000,000, and its percentage of aggregate indebtedness to net capital was 162.7%.

The Broker-Dealer Subsidiaries qualify under the exemptive provisions of Rule 15c3-3 which relates to the custody of securities for the account of customers pursuant to Section (k)(2)(ii) of the Rule, as none of them carry security accounts of customers or perform custodial functions related to customer securities.

Prime Capital Services, a broker dealer subsidiary, requested a reduction of its minimum net capital requirement that was approved on January 2, 2014. This approval reduced the required maintain minimum regulatory net capital of $100,000 to $5,000. The ratio of aggregate indebtedness to net capital, as defined, shall not exceed the greater of 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). Prime Capital filed a BDW with the SEC which was approved on March 3, 2014. On March 3, 2014, Prime Capital Services filed its final FOCUS Report on form X-17A-5 reflecting that it had net capital of approximately 343,000, which was approximately $338,000 in excess of its required net capital of $5,000 and its percentage of aggregate indebtedness to net capital was 44.0%. All accounts and registered representative of Prime Capital Services were transferred in accordance with Rule 1017 to National Securities in November 2013.

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

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

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

We do not have any material commitments for capital expenditures. We routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have ranged between $36,000 and $72,000 during the first quarter of fiscal 2014 and 2013, respectively.

	Six-months ended March 31, 2014	2013
Cash flows from operating activities		
Net Income	$ 3,926,000	$ 454,000
Non-cash adjustments		
Depreciation and amortization	1,156,000	538,000
Fair value options and restricted stock units	425,000	-
Net realized/unrealized gain on securities	(368,000)	(18,000)
Other	105,000	13,000
Changes in assets and liabilities		
Receivables from broker-dealers, clearing organizations	1,786,000	78,000
Other receivables	(1,497,000)	(503,000)
Other assets	(499,000)	(81,000)
Securities owned	145,000	(1,725,000)
Accounts payable, accrued expenses, and other liabilities	(511,000)	1,092,000
Other	569,000	133,000
Net cash provided by (used in) operating activities	5,237,000	(22,000)
Cash flows from in investing activities		
Acquisition-related cash acquired	1,654,000	-
Purchase of fixed assets	(72,000)	(36,000)
	1,582,000	(36,000)
Cash flows from financing activities		
Principal repayments of notes payable	-	(2,800,000)
Proceeds from issuance of common stock	-	8,420,000
Payment of certain liabilities of Gilman Ciocia	(5,400,000)	-
	(5,400,000)	5,620,000
Net increase in cash	$ 1,419,000	$ 5,562,000

Six months ended March 31, 2014

The decrease in receivables from clearing organizations, broker-dealers and others during the first half of fiscal 2014 is primarily due to the revenue performance in the commissions earned during the last month of a given quarter. These receivables are typically received within 10 days of the close of the month.

The increase in other receivable during the first half of fiscal 2014 is primarily due to the addition of a new receivable for accounting and tax preparation as a result of the merger with Gilman which amounted to approximately $1,900,000 for the quarter ended March 31, 2014. No such receivable existed for the same period in fiscal 2013.

Cash provided by investing activities during the first half of 2014 amounted to $1,582,000 and is primarily due to cash acquired of $1,654,000 resulting from the merger with Gilman.

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

Six months ended March 31, 2013

The increase in marketable securities as of March 31, 2013 is primarily due to an increase 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 decrease in accounts payables during the first half of fiscal 2013 is primarily due to the reduction of certain payables as a result of the Company's cash infusion from its recent issuance of common stock.

Cash used in investing activities during the first half of fiscal 2013 amounted to $36,000 which was primarily due to the purchase of fixed assets to maintain the Company's infrastructure.

Cash provided by financing activities of $5,627,000 during the first half 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.

Operating cash flows from period to period

Our net cash generated from operating activities increased to $5,327,000 from cash used in operating activities of $22,000 for the first half of fiscal 2014 and 2013, respectively. Such increase is primarily attributable to increased profitability as well as the aforementioned changes in assets and liabilities during the respective periods,

OFF-BALANCE SHEET ARRANGEMENTS

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

Recently Adopted Accounting Guidance

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

The new guidance was effective for the Company beginning January 1, 2014 and did not have material impact on the Company's financial statements upon adoption.

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

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors
b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

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

The following table shows the quoted market values of marketable securities we owned ("long"), securities we sold but have not yet purchased ("short"), and net positions as of March 31, 2014:

	Securities owned	Securities sold, but not yet purchased
Corporate stocks –marketable	$ 195,000	$ -
Mutual funds	61,000	-
Fixed income securities	382,000	82,000
Corporate stocks –non-marketable	11,000	-
Restricted stock and warrants – non-marketable	41,000	-
Total	$ 691,000	$ 82,000

Operational Risk

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

Risk Management

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

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

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

Changes in internal controls.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately $17,710,000 in aggregate. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and based on discussions with counsel believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at March 31, 2014 and September 30, 2013, are approximately $722,000 and approximately $250,000 (inclusive of legal fees and estimated claims), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of $318,000 and $578,000 for the fiscal quarters ended March 31, 2014 and 2013, respectively.

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Chief Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
** XBRL	information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

May 14, 2014	By: /s/ Mark Klein Mark Klein Chief Executive Officer
May 14, 2014	By: /s/ Alan B. Levin Alan B. Levin Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Klein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Holdings Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark Klein
Mark Klein, Chief Executive Officer
May 14, 2014

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan B. Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Holdings Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Alan B. Levin
Alan B. Levin, Chief Financial Officer
May 14, 2014

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National Holdings Corporation (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Klein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark Klein
Mark Klein
Chief Executive Officer
May 14, 2014

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National Holdings Corporation (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan B. Levin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alan B. Levin
Alan B. Levin
Chief Financial Officer
May 14, 2014