

NATIONAL HOLDINGS CORP
Form 10-K
December 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended
September 30, 2009
Commission File No: 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.) |

120 Broadway, 27th Floor, New York, NY 10271
(Address, including zip code, of principal executive offices)
Registrant's telephone number, including area code: (212) 417-8000

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.02 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
YES NO

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 or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III or any amendment to this Form 10-K. YES NO

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

As of March 31, 2009, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sales price for the registrant's common stock, as quoted on the Over-the-Counter Bulletin Board was approximately \$8,939,048 (calculated by excluding shares owned beneficially by directors, officers and 10% shareholders). As of December 29, 2009 there were 17,151,704 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement filed with the Securities and Exchange Commission (the "SEC") in connection with the Company's Annual Meeting of Shareholders to be held on or about March 17, 2010 (the "Company's 2010 Proxy Statement") are incorporated by reference into Part III hereof.

PART I

FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-K includes forward-looking statements as defined in the Private Securities Reform Act of 1995. These forward looking statements are often identified by words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "continue," "plan" and similar expressions. These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements.

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

- general economic conditions;
- our ability to obtain future financing or funds when needed;
- the inability of our broker-dealer operations to operate profitably in the face of intense competition from larger full-service and discount brokers;
- a general decrease in financing and merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed;
- increased competition from business development portals;
- technological changes;
- our potential inability to implement our growth strategy through acquisitions or joint ventures;
- acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties; and
- our ability to maintain and execute a successful business strategy.

You should also consider carefully the statements under "Risk Factors" and other sections of this Annual Report on Form 10-K, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

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

Item 1. BUSINESS

General

National Holdings Corporation (“National” or the “Company”), a Delaware corporation organized in 1996, is a financial services organization, operating primarily through its wholly owned subsidiaries, National Securities Corporation (“National Securities”), vFinance Investments, Inc. (“vFinance Investments”) and EquityStation, Inc. (“EquityStation”) (collectively, the “Broker Dealer Subsidiaries”). The Broker Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington. On March 15, 2006, the Company changed its name from “Olympic Cascade Financial Corporation” to “National Holdings Corporation.” On July 1, 2008, National consummated a merger with vFinance, Inc. (“vFinance”).

Through its Broker Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 45,000 high net worth and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) engages in trading securities, including making markets in over 4,000 micro and small cap stocks and provides liquidity in the United States Treasury marketplace. The Broker Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations on a fully disclosed basis. They are registered with the Securities and Exchange Commission (“SEC”), are members of the Financial Industry Regulatory Authority (“FINRA”) (formerly the National Association of Securities Dealers) and Securities Investor Protection Corporation (“SIPC”). vFinance Investments is also a member of the National Futures Association (“NFA”).

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

In July 1994, National Securities formed a wholly owned subsidiary, National Asset Management, Inc., a Washington corporation (“NAM”). 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. In March 2008, all of the issued and outstanding stock of NAM was transferred from National Securities to National.

In the third quarter of fiscal year 2006, we formed a wholly owned subsidiary, National Insurance Corporation, a Washington corporation (“National Insurance”). National Insurance provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities. National Insurance finalized certain requisite state registrations during the second quarter of fiscal year 2007 and commenced business operations that to date have been de minimis.

vFinance Lending Services, Inc. (“vFinance Lending”), originally formed as a wholly owned subsidiary of vFinance, Inc. (“vFinance”), was established in May 2002. It is a mortgage lender focused primarily on the commercial sector, providing bridge loans and commercial mortgages through its nationwide network of lenders. Its operations to date have been de minimis.

Merger with vFinance, Inc.

On November 7, 2007, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with vFinance and vFin Acquisition Corporation (“Merger Sub”), a wholly-owned subsidiary of ours.

Under the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub was merged with and into vFinance (the "Merger"), the separate corporate existence of Merger Sub ceased and vFinance continued as a surviving corporation of the Merger and as a wholly-owned subsidiary of ours.

Pursuant to the Merger Agreement, which was effective July 1, 2008 (the "Effective Date"), each share of vFinance common stock outstanding immediately prior to the closing of the Merger were automatically converted into the right to receive 0.14 shares of our common stock, rounded up to the nearest whole share.

Each option or warrant to purchase shares of vFinance common stock outstanding upon the Effective Date were converted into options or warrants, as the case may be, to acquire the number of shares of our common stock determined by multiplying (i) the number of shares of vFinance common stock underlying each outstanding stock option or warrant immediately prior to the effective time of the Merger by (ii) 0.14, at a price per share of our common stock equal to the exercise price per share of each stock option or warrant otherwise purchasable pursuant to the stock option or warrant divided by 0.14.

On the Effective Date, our board of directors consisted of Mark Goldwasser (Chairman of the Board), Leonard J. Sokolow (Vice Chairman of the Board), Christopher C. Dewey (Vice Chairman of the Board), Marshall S. Geller, Robert W. Lautz, Jr., Charles R. Modica and Jorge A. Ortega. Messrs. Geller, Lautz, Modica and Ortega are independent directors.

Pursuant to the Merger Agreement, Mr. Goldwasser, our Chairman of the board of directors, Mr. Dewey, a Vice Chairman of our board of directors, and Mr. Sokolow, the Chairman and Chief Executive Officer of vFinance (and now a Vice Chairman of our board of directors and our President), entered into an agreement (the "Director Voting Agreement") on the Effective Date to vote their shares of our common stock for the election of each other and up to three designees of Mr. Goldwasser and up to three designees of Mr. Sokolow until the earlier to occur of: (i) the Company's merger, consolidation or reorganization whereby the holders of our voting stock own less than 50% of the voting power of the Company after such transaction, (ii) by mutual consent of the parties thereto, (iii) the date that Messrs. Goldwasser, Sokolow and Dewey own in the aggregate less than one percent of our outstanding voting securities, (iv) upon the fifth anniversary of the Director Voting Agreement or (v) upon listing of our common stock on AMEX, the NASDAQ Capital Market or the NASDAQ Global Market.

On the Effective Date, Mr. Sokolow's employment as Chairman and Chief Executive Officer of vFinance and his employment agreement with vFinance dated November 16, 2004, as amended, was terminated and vFinance's principal office was relocated to New York City, New York. Accordingly, pursuant to the terms of Mr. Sokolow's former employment agreement with vFinance, Mr. Sokolow received a lump sum cash payment of \$1,150,000 as of the Effective Date.

Clearing Relationships

The Broker Dealer Subsidiaries have clearing arrangements with National Financial Services LLC ("NFS"), Penson Financial Services, Inc. ("Penson"), Legent Clearing LLC ("Legent"), Fortis Securities, LLC ("Fortis") and Rosenthal Collins Group, LLC. ("Rosenthal"). We believe that the overall effect of our clearing relationships has been beneficial to our cost structure, liquidity and capital resources.

Financial Information about Industry Segments

The Company realized approximately 85% of its total revenues in fiscal year 2009 from brokerage services, principal and agency transactions, and investment banking. During fiscal year 2009, brokerage services that consist of retail brokerage commissions represent 62% of total revenues, principal and agency transactions that consist of net dealer inventory gains represent 21% of total revenues, and investment banking, that consist of corporate finance commissions and fees, represent 2% of total revenues. For a more detailed analysis of our results by segment, see Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operation."

Brokerage Services

Our Broker Dealer Subsidiaries are each registered as a broker-dealer with the SEC and are licensed in all 50 states, the District of Columbia and Puerto Rico. The Broker Dealer Subsidiaries are also members of the FINRA, the Municipal Securities Rulemaking Board ("MSRB") and the SIPC, and vFinance Investments is also a member of the NFA. Brokerage services to retail clients are provided through our sales force of investment executives at the Broker Dealer Subsidiaries.

Our goal is to meet the needs of its investment executives and their clients. To foster individual service, flexibility and efficiency and to reduce fixed costs, our investment executives primarily act as independent contractors responsible for providing their own office facilities, sales assistants, telephone and quote service, supplies and other items of overhead. Investment executives are given broad discretion to structure their own practices and to specialize

in different areas of the securities market subject to supervisory procedures. In addition, investment executives have direct access to research materials, management, traders, and all levels of support personnel.

The brokerage services provided by our investment executives include execution of purchases and sales of stocks, bonds, mutual funds, annuities and various other securities for individual and institutional customers. In fiscal year 2009, stocks and options represented approximately 85% of our business, bonds represent approximately 9% of our business, and mutual funds and annuities and insurance make up approximately 6% of our business. The percentage of each type of business varies over time as the investment preferences of our customers change based on market conditions.

Typically, our Broker Dealer Subsidiaries do not recommend particular securities to customers. Rather, recommendations to customers are determined by individual investment executives based upon their own research and analysis, subject to applicable FINRA customer suitability standards. Most investment executives perform fundamental (as opposed to technical) analysis. Solicitations may be by telephone, seminars or newsletters.

We generally act as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which we do not make a market, and charge commissions based on the services we provide to our customers. In executing customer orders to buy or sell a security in which we make a market, we 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. We 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. We believe our mark-ups, mark-downs and commissions are competitive based on the services we provide to our customers. In each instance the commission charges, mark-ups or mark-downs, are in compliance with guidelines established by FINRA. In order to increase revenues generated from these activities, we continuously seek to hire additional registered representatives and work with our current registered representatives to increase their productivity.

Our registered representatives are primarily independent contractors, not salaried employees. As such, payments to these persons are based on commissions generated and represent a variable cost rather than a fixed cost of operating our business. Commission expense represents a significant majority of our total expenses. We work to control our fixed costs in order to achieve profitability based upon our expectation of market conditions and the related level of revenues. Additionally, we require most of our registered representatives to absorb their own overhead and expenses, thereby reducing our share of the fixed costs.

Investment executives in the brokerage industry are traditionally compensated on the basis of set percentages of total commissions and mark-ups generated. Most brokerage firms bear substantially all of the costs of maintaining their sales forces, including providing office space, sales assistants, telephone service and supplies. The average commission paid to investment executives in the brokerage industry generally ranges from 30% to 50% of total commissions generated.

Since we require most of our investment executives to absorb their own overhead and expenses, we pay a higher percentage of the net commissions and mark-ups generated by our investment executives, as compared to traditional investment executives in the brokerage industry. This arrangement also reduces fixed costs and lowers the risk of operational losses for non-production. Our operations include execution of orders, processing of transactions, internal financial controls and compliance with regulatory and legal requirements.

As of September 30, 2009, we had a total of 922 associates of which 164 were employees and were 758 independent contractors. Of these totals 693 were registered representatives. Persons who have entered into independent contractor agreements are not considered employees for purposes of determining our obligations for federal and state withholding, unemployment and social security taxes. Our independent contractor arrangements conform to accepted industry practice, and therefore, we do not believe there is a material risk of an adverse determination from the tax authorities that would have a significant effect on our ability to recruit and retain investment executives or on our current operations and financial results of operations. No employees are covered by collective bargaining agreements and we believe our relations are good with both our employees and independent contractors.

Our business plan includes the growth of its retail and institutional brokerage business, while recognizing the volatility of the financial markets. In response to historical market fluctuations, we have periodically adjusted certain business activities, including proprietary trading and market-making trading. We believe that consolidation within the industry is inevitable. Concerns attributable to the volatile market and increased competition are resulting in a number of acquisition opportunities being introduced to us. We are focused on maximizing the profitability of our existing operations while we continue to seek selective strategic acquisitions.

Periodic reviews of controls are conducted and administrative and operations personnel meet frequently with management to review operating conditions. Compliance and operations personnel monitor compliance with applicable laws, rules and regulations.

Principal and Agency Transactions

We buy and maintain inventories in equity securities as a "market-maker" for sale of those securities to other dealers and to our customers. We may also maintain inventories in corporate, government and municipal debt securities for sale to customers. The level of our market-making trading activities will increase or decrease depending on the relative strength or weakness of the broader markets. As of September 30, 2009, we made markets in over 4,000 micro and small-cap stocks. We anticipate that we will continue market-making trading activity in the future, which may include companies for which we managed or co-managed a public offering.

Our trading departments require a commitment of capital. Most principal transactions place our capital at risk. Profits and losses are dependent upon the skill of the traders, price movements, trading activity and the size of inventories. Since our trading activities occasionally may involve speculative and thinly capitalized stocks, including stabilizing the market for securities which we have underwritten, we impose position limits to reduce our potential for loss.

In executing customer orders to buy or sell a security in which we make a market, we 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. We 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. We believe our mark-ups, mark-downs and commissions are competitive based on the services we provide to our customers.

In executing customer orders to buy or sell listed and over-the-counter securities in which we do not make a market, we generally act as an agent and charge commissions that we believe are competitive, based on the services we provide to our customers.

Investment Banking

We provide corporate finance and investment banking services, including underwriting the sale of securities to the public and arranging for the private placement of securities with investors. Our corporate finance operations provide a broad range of financial and corporate advisory services, including mergers and acquisitions, project financing, capital structure and specific financing opportunities. We also act as an underwriter of equity securities in both initial and secondary public offerings. Corporate finance revenues are generated from capital raising transactions of equity and debt securities and fees for strategic advisory services, and will vary depending on the number of private and public offerings completed by us during a particular fiscal year.

Institutional Services

A critical element of our business strategy is to identify institutional quality investments that offer above market returns. We support that mission by providing institutional investment managers, primarily hedge fund managers, a complete array of services designed to enhance portfolio performance. Hedge funds represent the fastest growing segment of the money management market and by definition are focused on achieving positive returns for their investors while controlling risk. We offer fund managers access to advanced direct market access trading platforms, investment opportunities and independent research products that boost return on investment. Additionally, we offer fund managers the ability to reduce their transaction costs by offering them access to our trading desk for illiquid securities and automated trading systems for their liquid transactions. We have a mutually beneficial relationship with our Investment Banking Division ("IBD") as fund managers looking for investment opportunities fund IBD's corporate clients and having relationships with fund managers creates opportunities to increase the number and quality of IBD clients.

As of September 30, 2009, we employed or had contractual relationships with approximately 10 individuals providing institutional services, approximately 6 of which provide hedge fund related services. We service approximately 200 institutional customers, of which approximately 85 are hedge funds. For the fiscal year ended September 30, 2009, hedge fund related services accounted for approximately \$5 million in revenue.

Internet Strategy

Our www.vfinance.com website is available to an audience of entrepreneurs, corporate executives and private and institutional investors in over 100 countries with an estimated 20,000 unique visitors monthly. The website provides sales leads to our brokerage and institutional services divisions, giving visitors convenient access to a variety of financial services, proprietary business development tools, searchable databases and daily news. The website has over 60,000 "opted in" subscribers that receive a newsletter on private funding several times a week. The website features our database of venture capital firms and angel investors accessible with vSearch, a proprietary web-based data mining tool that allows entrepreneurs to search potential funding sources by different criteria, including geography, amount of funds required, industry, stage of corporate development or keyword. Much of the information on the website is provided free of charge, however, we charge nominal fees for the use of proprietary search engines and premium services such as our business planning services.

Administration, Operations, Securities Transactions Processing and Customer Accounts

Our Broker Dealer Subsidiaries do not hold any funds or securities for customers. Instead, they use the services of clearing agents on a fully-disclosed basis. These clearing agents process all securities transactions and maintain

customer accounts. Customer accounts are protected through the SIPC for up to \$500,000, of which coverage for cash balances is limited to \$100,000. In addition, all customer accounts carried at NFS are fully protected by an Excess Securities Bond providing protection for the account's entire net equity (both cash and securities). The services of our subsidiaries' clearing agents include billing and credit control as well as receipt, custody and delivery of securities. The clearing agents provide the operational support necessary to process, record and maintain securities transactions for our subsidiaries' brokerage activities. They provide these services to our subsidiaries' customers at a total cost that we believe is less than it would cost us to process such transactions on our own. The clearing agents also lend funds to our subsidiaries' customers through the use of margin credit. These loans are made to customers on a secured basis, with the clearing agents maintaining collateral in the form of saleable securities, cash or cash equivalents. Our Broker Dealer Subsidiaries' have agreed to indemnify the clearing brokers for losses they incur on these credit arrangements.

Competition

The Company is engaged in a highly competitive business. With respect to one or more aspects of our business, our competitors include member organizations of the New York Stock Exchange and other registered securities exchanges in the United States and Canada, and members of FINRA. Many of these organizations have substantially greater personnel and financial resources and more sales offices than the Company. Discount brokerage firms affiliated with commercial banks provide additional competition, as well as companies that provide electronic on-line trading. In many instances, the Company is also competing directly for customer funds with investment opportunities offered by real estate, insurance, banking, and savings and loans industries.

The securities industry has become considerably more concentrated and more competitive since we were founded, as numerous securities firms have either ceased operations or have been acquired by or merged into other firms. In addition, companies not engaged primarily in the securities business, but with substantial financial resources, have acquired leading securities firms. These developments have increased competition from firms with greater capital resources than ours.

Since the adoption of the Gramm-Leach-Bliley Act of 1999, commercial banks and thrift institutions have been able to engage in traditional brokerage and investment banking services, thus increasing competition in the securities industry and potentially increasing the rate of consolidation in the securities industry.

We also compete with other securities firms for successful sales representatives, securities traders and investment bankers. Competition for qualified employees in the financial services industry is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. For a further discussion of risks facing the Company, please see "Risk Factors."

Government Regulation and Supervision

The securities industry and our Broker Dealer Subsidiaries businesses are subject to extensive regulation by the SEC, FINRA, NFA and state securities regulators and other governmental regulatory authorities. The principal purpose of these regulations is the protection of customers and the securities markets. The SEC is the federal agency charged with the administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, such as the FINRA, that adopt rules, subject to approval by the SEC, which govern their members and conduct periodic examinations of member firms' operations. Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. All of our Broker Dealer Subsidiaries are registered broker-dealers with the SEC and members of FINRA. They are licensed to conduct activities as a broker-dealer in all 50 states, the District of Columbia and Puerto Rico.

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

National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of \$250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes National Securities from having to calculate a ratio of aggregate indebtedness to net capital. At September 30, 2009, National Securities had net capital of approximately \$489,000 which was approximately \$239,000 in excess

of its required net capital of \$250,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of \$1,000,000 and EquityStation is required to maintain \$100,000. In addition to the net capital requirements, each of vFinance Investments and EquityStation are 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 September 30, 2009, vFinance Investments had net capital of approximately \$1,295,000, which was approximately \$295,000 in excess of its required net capital of \$1,000,000, and its percentage of aggregate indebtedness to net capital was 614.0%. At September 30, 2009, EquityStation had net capital of approximately \$186,000, which was approximately \$86,000 in excess of its required net capital of \$100,000, and its percentage of aggregate indebtedness to net capital was 297.0%. Each of the Broker Dealer Subsidiaries qualifies 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.

7

The Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the FINRA Conduct Rules require our broker dealer subsidiaries to supervise the activities of its investment executives. As part of providing such supervision, National Securities maintains Written Supervisory Procedures and a Compliance Manual. Compliance personnel and outside auditors conduct inspections of branch offices periodically to review compliance with the Company's procedures. A registered principal provides onsite supervision at each of the Company's larger offices. The other offices (averaging two investment executives per office) are not required by FINRA rules to have a registered principal on site and are therefore supervised by registered principals of National Securities. Designated principals review customer trades to ensure compliance with FINRA Conduct Rules including mark-up guidelines.

Application of Laws and Rules to Internet Business and Other Online Services

Due to the increasing popularity and use of the Internet and other online services, various regulatory authorities are considering laws and/or regulations with respect to the Internet or other online services covering issues such as user privacy, pricing, content copyrights and quality of services. In addition, the growth and development of the market for online commerce may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. When the Securities Act, which governs the offer and sale of securities, and the Exchange Act, which governs, among other things, the operation of the securities markets and broker-dealers, were enacted, such acts did not contemplate the conduct of a securities business through the Internet and other online services. The recent increase in the number of complaints by online traders could lead to more stringent regulations of online trading firms and their practices by the SEC, FINRA and other regulatory agencies.

Although the SEC, in releases and no-action letters, has provided guidance on various issues related to the offer and sale of securities and the conduct of a securities business through the Internet, the application of the laws to the conduct of a securities business through the Internet continues to evolve. Furthermore, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes and personal privacy is uncertain and may take years to resolve. Uncertainty regarding these issues may adversely affect the viability and profitability of our business.

As our services, through our subsidiaries, are available over the Internet in multiple jurisdictions, and as we, through our subsidiaries, have numerous clients residing in these jurisdictions, these jurisdictions may claim that our subsidiaries are required to qualify to do business as a foreign corporation in each such jurisdiction. While our broker dealer subsidiaries are currently registered as broker-dealers in the jurisdictions described in this Annual Report on Form 10-K, all of our subsidiaries are qualified to do business as corporations in only a few jurisdictions. Failure to qualify as an out-of-state or foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties for the failure to qualify.

Intellectual Property

We own the following federally registered marks: vFinance, Inc.(R), vFinance.com, Inc.(R), AngelSearch(R), Direct2Desk(R) and Hedge Fund Accelerator(R).

Employees

As of September 30, 2009, we employed the following personnel:

| Position | Salaried Employees | Independent Contractors | Total |
|----------------|--------------------|-------------------------|-------|
| Officers | 16 | 0 | 16 |
| Administration | 84 | 174 | 258 |
| Brokers | 28 | 578 | 606 |

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

| | | | |
|--------------------|-----|-----|-----|
| Traders | 25 | 1 | 26 |
| Investment Bankers | 11 | 3 | 14 |
| Lenders | 0 | 2 | 2 |
| Totals | 164 | 758 | 922 |

None of our personnel are covered by a collective bargaining agreement. We consider our relationships with our employees to be good. Any future increase in the number of employees will depend upon the growth of our business. Our registered representatives are required to take examinations administered by FINRA and state authorities in order to qualify to transact business and are required to enter into agreements with us obligating them, among other things, to adhere to industry rules and regulations, our supervisory procedures and not to solicit customers, other employees or brokers in the event of termination.

Seasonality and Backlog

Our business is not subject to significant seasonal fluctuations, and there are no material backlogs in our business.

Research and Development and Environmental Matters

We did not incur any research and development expenses during the last three fiscal years. We do not incur any significant costs or experience any significant effects as a result of compliance with federal, state and local environmental laws.

Item 1A. RISK FACTORS

The financial statements contained in this report and the related discussions describe and analyze the Company's financial performance and condition for the periods indicated. For the most part, this information is historical. The Company's prior results, however, are not necessarily indicative of the Company's future performance or financial condition. The Company, therefore, has included the following discussion of certain factors that could affect the Company's future performance or financial condition. These factors could cause the Company's future performance or financial condition to differ materially from its prior performance or financial condition or from management's expectations or estimates of the Company's future performance or financial condition. These factors, among others, should be considered in assessing the Company's future prospects and prior to making an investment decision with respect to the Company's stock. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations.

Risks Related to Our Business

Our operating results have resulted in reporting losses.

National reported losses of approximately \$6 million and \$21.0 million in fiscal years 2009 and 2008, respectively. National's losses were primarily attributable to the volatile market conditions in fiscal year 2008 and the generally slow recovery in customer activity volume due to significant investor losses in 2008. In addition, the Company took an impairment of \$12.9 million on its intangible asset it acquired in the merger with vFinance in fiscal year ended 2008. The market slowdowns and reduced trading activity and volatility, and the cessation of National's market making activities prior to the Merger, in addition to vFinance's substantial losses due to ongoing operating expenses and a lack of revenues sufficient to offset those operating expenses contributed as well. There is no assurance that we will be profitable in the future. If we are unable to achieve or sustain profitability, we may need to curtail, suspend or terminate certain operations.

We may require additional financing.

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

If we are unable to pay our outstanding debt obligations when due, our operations may be materially adversely affected.

At September 30, 2009, we had total indebtedness of \$7,350,000, of which \$850,000 is subordinated debt and \$500,000 is a nonconvertible note maturing in May 2010. We cannot assure you that our operations will generate funds sufficient to repay our existing debt obligations as they come due. Our failure to repay our indebtedness and make interest payments as required by our debt obligations could have a material adverse affect on our operations.

We are exposed to risks due to its investment banking activities.

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

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

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not accurately predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot assure that our policies and procedures will effectively and accurately record and verify this information.

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. We believe that we are able to evaluate and manage the market, credit and other risks to which it is exposed. Nonetheless, our ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments could have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in our credit risk to customers as well as to third parties and increases in general systemic risk.

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

We depend on the continued services of our management team, particularly Mr. Goldwasser, our Chairman and Chief Executive Officer, Mr. Sokolow, our Vice Chairman and President, and Mr. Dewey, our Vice Chairman, as well as our ability to hire additional members of management, and to retain and motivate other officers and key employees. We may not be able to find an appropriate replacement for Messrs. Goldwasser, Sokolow or Dewey or any other executive officer if the need should arise. We currently maintain a \$6,000,000 life insurance policy on Mr. Goldwasser. Due to the regulated nature of some of our businesses, some of our executive officers, or other key personnel could become subject to suspensions or other limitations on the scope of their services to the Company from time to time. If we lose the services of any executive officers or other key personnel, we may not be able to manage and grow our operations effectively, enter new brokerage markets or develop new products.

Our Broker Dealer Subsidiaries are subject to various risks associated with the securities industry.

As securities broker-dealers, our Broker Dealer Subsidiaries are subject to uncertainties that are common in the securities industry. These uncertainties include:

- the volatility of domestic and international financial, bond and stock markets;
- extensive governmental regulation;
- litigation;
- intense competition;
- substantial fluctuations in the volume and price level of securities; and
- dependence on the solvency of various third parties.

As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, profitability is impaired because certain expenses remain relatively fixed. In the event of a market downturn, our business could be adversely affected in many ways. Our revenues are likely to decline in such circumstances and, if it were unable to reduce expenses at the same pace, its profit margins would erode.

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

Our Broker Dealer Subsidiaries are subject to the SEC's net capital rule which requires the maintenance of minimum net capital. National Securities, vFinance Investments, and EquityStation are each required to maintain \$250,000, \$250,000 and \$100,000 in minimum net capital, respectively. Due to its market maker status, vFinance Investments is required to maintain a specified amount of capital for each security that it makes a market in, based on the bid price of each stock. This required amount can exceed the minimum net capital requirement, and in the case of vFinance Investments, the minimum Net Capital Requirement has been \$1,000,000 (the limit) in recent years. The net capital rule is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with the net capital rule limits those operations of broker-dealers that require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness, such as subordinated debt, as it matures. FINRA may enter the

offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, FINRA may immediately restrict or suspend certain or all of the activities of a broker-dealer. Our Broker Dealer Subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below requirements established by the SEC, and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. In addition, if these net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain its present levels of business, which could have a material adverse effect on our business. In addition, we may become subject to net capital requirements in other foreign jurisdictions in which we currently operate or which it may enter. We cannot predict its future capital needs or its ability to obtain additional financing.

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

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

Our revenues may decline in adverse market or economic conditions.

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

Market fluctuations and volatility may reduce our revenues and profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face significant competition for registered representatives.

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

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

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

employees binding us to transactions that exceed authorized limits or present unacceptable risks to us;

- employees hiding unauthorized or unsuccessful activities from us; or
- the improper use of confidential information.

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

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

Although a significant portion of our business is conducted using traditional methods of contact and communications such as face-to-face meetings, a portion of its business is conducted through the Internet. We could experience system failures and degradations in the future. We cannot assure you that we will be able to prevent an extended system failure if any of the following events occur:

- human error;
- subsystem, component, or software failure;
- a power or telecommunications failure;
- an earthquake, fire, or other natural disaster or act of God;
- hacker attacks or other intentional acts of vandalism; or
- terrorist acts or war.

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

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

Risks Related to our Common Stock

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

Our common stock is quoted on the OTC Bulletin Board. Traditionally, the trading volume of the common stock has been limited. For example, for the 30 trading days ending on September 30, 2009, the average daily trading volume was approximately 27,155 shares per day and on certain days there was no trading activity. During such 30-day period the closing price of the National common stock ranged from a high of \$0.72 to a low of \$0.50. Because of this limited trading volume, holders of our securities may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the per share price is subject to volatility and may continue to be subject to rapid price swings in the future.

The conversion or exercise of our outstanding convertible securities stock may result in dilution to our common stockholders.

Dilution of the per share value of our common shares could result from the conversion of most or all of the currently outstanding shares of our preferred stock and from the exercise of the currently outstanding convertible securities.

Preferred Stock - We currently have 42,957 shares of Series A preferred stock outstanding, which are convertible, in total, into 3,436,560 shares of common stock.

Warrants and Options - We currently have outstanding warrants to purchase 2,090,473 shares of common stock at exercise prices ranging from \$0.75 to \$4.46 per share and options to purchase 5,912,165 shares of common stock at exercise prices ranging from \$0.64 to \$2.57 per share.

Convertible Notes - We currently have outstanding \$6,000,000 principal amount of convertible promissory notes which are convertible into an aggregate of 3,375,000 shares of common stock at conversion prices of \$1.60 or \$2.00 per share.

The exercise of these warrants and options, and conversion of the Series A preferred shares and convertible notes, and the sale of the underlying common stock, or even the potential of such conversion or exercise and sale, may have a depressive effect on the market price of our securities and the exercise or conversion of such securities will cause dilution to our stockholders. Moreover, the terms upon which we will be able to obtain additional equity capital may be adversely affected, since the holders of the outstanding convertible securities can be expected to convert or exercise them at a time when we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than the exercise terms provided by the outstanding options and warrants. Dilution could create significant downward pressure on the trading price of our common stock if the conversion or exercise of these securities encouraged short sales. Even the mere perception of eventual sales of common shares issued on the conversion of these securities could lead to a decline in the trading price of our common stock.

The price of our common stock is volatile.

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

We have restricted shares outstanding that may depress the price of our common stock.

As of September 30, 2009, of the 17,151,704 outstanding shares of our common stock, approximately 2,900,000 shares may be deemed restricted shares and, in the future, may be sold in compliance with Rule 144 under the Securities Act. Rule 144, as amended, provides that a person who is not affiliated with the Company holding restricted securities for six months may sell such shares without restriction. A person who is affiliated with us and who has held restricted securities for six months may sell such shares in brokerage transactions, subject to limitations based on the number of shares outstanding and trading volume. Such sales may have a depressive effect on the price of our common stock in the open market.

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

As of September 30, 2009, our executive officers, directors and/or entities that these individuals are affiliated with, owned approximately 24% of our outstanding common stock, including shares of common stock issuable upon conversion of our Series A preferred stock, and excluding stock options, warrants and convertible notes, or approximately 46% on a fully-diluted basis. Accordingly, these individuals and entities will be able to significantly influence most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions

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

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

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

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

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

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

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

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

Our board of directors has the authority, without further action by our stockholders, to issue up to 200,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions in each series of the preferred stock, including:

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

There are currently 50,000 shares of Series A preferred stock authorized, with 42,957 of such shares issued and outstanding. The issuance of additional shares of preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. Other than the issuance of additional shares of our Series A preferred stock as in-kind dividends, we have no current plans to issue any additional preferred stock in the next twelve months, although the issuance of preferred stock may be necessary in order to raise additional capital.

We will be subject to new requirements that we evaluate our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act and other corporate governance initiatives that may expose certain risks.

For the year ended September 30, 2009, we are subject to the requirements of Section 404 of the Sarbanes-Oxley Act and the SEC rules and regulations that require an annual management report on its internal controls over financial reporting, including, among other matters, management's assessment of the effectiveness of its internal control over financial reporting. For the year ending September 30, 2010, an attestation report by our independent registered public accounting firm regarding our internal controls will also be required.

We cannot be certain as to the timing of the completion of our evaluation, testing and remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, including the SEC. Moreover, if we are unable to assert that our internal control over financial reporting is effective in any future period (or if its auditors are unable to express an opinion on the effectiveness of its internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which may have an a material adverse effect on our business.

Our compliance with the Sarbanes-Oxley Act may require significant expenses and management resources that would need to be diverted from our other operations and could require a restructuring of our internal controls over financial reporting. Any such expenses, time reallocations or restructuring could have a material adverse effect on its operations. The applicability of the Sarbanes-Oxley Act could make it more difficult and more expensive for us to obtain director and officer liability insurance, and also make it more difficult for us to attract and retain qualified individuals to serve on our boards of directors, or to serve as executive officers.

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

We do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. Other than dividends paid on our Series A preferred stock, we expect to retain all future earnings, if any, for investment in our business. In addition, our Certificates of Designation setting forth the relative rights and preferences of its Series

A preferred stock, as well as our outstanding convertible notes, may limit our ability to pay dividends to the holders of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

17

Item 2. PROPERTIES

The Company owns no real property. Its corporate headquarters are in space leased by National Securities in New York, New York. The Company leases office space in Boca Raton, Florida, and through its subsidiaries, the Company leases office space in Chicago, New York, Seattle, Washington and Tinton Falls, New Jersey. Independent contractors individually lease the branch offices that are operated by those independent contractors.

Leases expire at various times through August 2014. The Company believes the rent at each of its locations is reasonable based on current market rates and conditions. We consider the facilities of our company and those of our subsidiaries to be reasonably insured and adequate for the foreseeable needs of our company and its subsidiaries.

The Company leases office space in the following locations. The following chart provides information related to these lease obligations:

| Address | Approximate Square Footage | Approximate Annual Lease Rental | Lease Termination Date |
|--|----------------------------|---------------------------------|------------------------|
| 120 Broadway, New York, NY | 30,699 | 1,326,197 | 8/31/2013 |
| 875 N. Michigan Ave., Chicago, IL | 1,868 | 63,512 | 12/31/2011 |
| 1001 Fourth Ave, Seattle, WA | 16,421 | 511,308 | 6/30/2012 |
| 2424 N. Federal Highway, Boca Raton, FL | 10,177 | 173,004 | 12/31/2013 |
| 4000 Rt. 66, Tinton Falls, NJ | 3,798 | 96,852 | 9/30/2012 |
| 131 Gaither Drive, Mount Laurel, NJ | 1,400 | 19,600 | 9/30/2010 |
| 1200 N. Federal Highway, Boca Raton FL | 17,089 | 542,100 | 8/21/2014 |
| 330 Madison Ave New York City, NY | 6,484 | 310,050 | 4/29/2011 |
| 3010 North Military Trail Boca Raton, FL | 2,634 | 79,128 | 2/28/2011 |

Item 3. LEGAL PROCEEDINGS

In July 2005, the Securities and Exchange Commission contacted vFinance regarding an investigation into Lexington Resources, Inc. On May 4, 2006 the Commission issued an Order Directing Investigation advising vFinance that the Division of Enforcement staff were investigating possible violations of Sections 5(a) and 5(c) of the Securities Act of 1933, Rule 10(b)5 of the Exchange Act, Section 17b of the Securities Act, Section 17(a) of the Exchange Act, Section 15(c)(1)(a) of the Exchange Act, Section 13(d) of the Exchange Act, and Section 16(a) of the Exchange Act from the period of November 2003 through May 4, 2006. From July 2005 through and including March 2007, multiple document and information requests and responses to those requests were exchanged between the SEC staff and vFinance. In total more than 5,000 pages of documents were produced to the SEC staff in both electronic and hard copy form. On January 3, 2008, the SEC issued an Order Instituting Administrative Proceedings against vFinance Investments, Inc., Richard Campanella and a former registered representative. The Order alleges that vFinance violated the federal securities laws by failing to preserve and produce customer correspondence of one of its registered representative. The SEC also alleges that the registered representative repeatedly failed to produce records and deliberately deleted data from his hard drive relating to a matter under investigation by the SEC. The SEC separately alleges that Campanella failed to respond promptly to the SEC's document requests, as required under Section 17(a) of the Exchange Act, and failed to address the registered representative's non-compliance with the firm document retention policies. The alleged violations were isolated occurrences related to this registered representative and were limited to the Flemington, New Jersey branch office. The registered representative terminated his employment with vFinance on August 4, 2006, and has not been associated with vFinance since that date. On November 7, 2008, a ruling in this matter was issued which found that vFinance willfully violated Section 17(a) of the Exchange Act and Rules 17a-4(b)(4) and 17a-4(j) thereunder, and that Campanella aided and abetted and caused vFinance's violations. As a consequence, a Cease and Desist Order was issued against vFinance with a civil monetary penalty against vFinance in the amount of \$100,000.00. On November 17, 2008 vFinance filed a Motion to Correct Manifest Errors of Fact in the Initial Decision in an effort to correct possible errors in the ruling's findings of fact. The Judge denied the motion. The Company sought review of the Judge's decision and, following briefing, will present oral argument in early 2010.

On March 4, 2008, vFinance received a customer arbitration (FINRA Case No.08-00472) from Donald and Patricia Halfmann, alleging that Jeff Lafferty, a former registered representative of vFinance, misappropriated approximately \$110,000 of the Halfmanns' funds via check alteration, and that vFinance ought to be liable for an additional \$150,000 for other dishonest and fraudulent acts committed after he left vFinance. On August 6, 2009 the arbitrators' ruled that vFinance Investments must pay for losses, interest, attorney's costs and punitive damages totaling approximately \$805,000. The firm made a claim against its fidelity bond carrier, and received approximately \$59,000 for the claim. The firm has determined that there was no basis to seek to have the entire arbitration award, or any part of that award, vacated. In December, vFinance finished paying the entire award to the Halfmann's in accordance with the terms agreed upon between the parties.

In November 2009, James and Cheryl Merrill, on behalf of themselves and on behalf of all other similarly situated investors, filed a class action in the United States District Court, Central District of California, Southern Division, against National and National Securities in connection with the purchase and sale of promissory notes issued on or after September 18, 2006 by one or more of Medical Capital Holdings, Inc.'s special purpose corporations, including Medical Provider Financial Corporation III, Medical Provider Financial Corporation IV ("Medical Capital IV"), Medical Provider Funding Corporation V ("Medical Capital V") and Medical Provider Funding Corporation VI V ("Medical Capital VI"). The class action has not yet been certified or decertified. The class members assert claims against NSC for violations of Section 12(a)(1) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. § 771, and for violations of 12(a)(2) of the Securities Act, 15 U.S.C. § 771. The class members further assert claims against NHC under Section 15 of the Securities Act, 15 U.S.C. § 770. The class members seek compensatory damages, rescission or a recessionary measure of damages, pre-judgment and post-judgment interest, costs and expenses, including attorneys' fees, all in undisclosed amounts.

In December 2009, Amos Norman (“Norman”), individually and as trustee of a trust, commenced an arbitration against National Securities and Brian Folland (“Folland”), a securities broker registered with NSC, before FINRA Dispute Resolution in connection with investments totaling \$815,000. Claimant alleges that he invested a total of \$590,000 in Medical Capital IV, Medical Capital V and Medical Capital VI, among other investments, although Norman concedes that \$60,000 of the amount invested in Medical Capital IV was made prior to Folland’s registration with National Securities, and further, that National Securities should not be liable for such investment. Claimant also alleges that he invested \$100,000 in an entity created by Provident Royalties (discussed further below). Claimant asserts claims against National Securities for violation of federal securities laws, violation of California securities laws, violation of California’s elder abuse laws, violation of California’s unfair, unlawful and fraudulent business practices acts, breach of contract, common law fraud, breach of fiduciary duty, negligence and gross negligence.

In total, Claimant seeks compensatory damages of \$630,000 from National Securities (\$530,000 for the Medical Capital investments and \$100,000 for the Provident Royalties investment), as well as benefit of the bargain damages, lost opportunity costs, model portfolio damages, prejudgment interest, costs, reasonable attorneys’ fees and punitive damages, all in undisclosed amounts.

In October 2009, NSC received demands from counsel representing two other customers who allegedly invested an aggregate of \$200,000 in Medical Capital V and Medical Capital VI. Those matters have not proceeded to litigation and the Company has not yet conducted discovery into the allegations or potential defenses, although it appears that those customers may also be contemplated members of the above-discussed class action. The Company estimates, to the extent that it can, that based on prior experience, its liability from these demands, should they proceed to litigation, may be substantially less than the amount of all damages and other relief sought. These demands arise in the normal course of business.

The Company has not yet conducted discovery into the allegations or potential defenses in connection with any of these actions or claims and it appears that Norman and the other claimants set forth above may be contemplated member of the above-discussed class action with respect to his investments in Medical Capital IV, Medical Capital V and Medical Capital VI, and with respect to Norman, the below-discussed class action involving Provident Royalties. The Company intends to defend itself vigorously in this action and believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

In December 2009, plaintiffs Robert Adams, Joseph Billitteri, Karen L. Bopp, IRA, Bussell Living Trust DTD 12/05/96, John Gilgallon, Scott Jessen, Sharon Kreindel Revocable Trust DTD 02/09/2005, Mary Merline, James Merrill, Don Ribacchi and Lewis Wilson, each on his, her or its own behalf and on behalf of all similarly situated investors, filed a Consolidated Amended Class Action Complaint in the United States District Court, Northern District of Texas, Dallas Division, against a number of broker-dealers, including NSC, and against a number such broker-dealers' parent companies, including NHC, in connection with a series of offerings for oil and gas investments. Each member of the class asserts claims against NSC for breach of fiduciary duty and for violations of § 33(A)(2) of the Texas Securities Act. Each member seeks to hold NHC liable for NSC's conduct as a control person under § 33(F)(1) of the Texas Securities Act. The class members seek compensatory damages, rescission or a recessionary measure of damages, pre-judgment interest, costs and expenses, including attorneys' fees, all in undisclosed amounts.

In December 2009, claimants Lorna Chen, Terry Darden, John Davis, Barbara Farace, David Kravetz, Janice Miyashiro and Vip Miyashiro commenced an arbitration against NSC before FINRA Dispute Resolution. Claimants assert claims against NSC for negligence, negligent misrepresentation and omission, breach of fiduciary duty, breach of contract, violation of New Jersey's Uniform Securities Law, violation of the Texas Securities Act, violation of California Corporate Securities Laws, violation of the Securities Act of Washington

In total, Claimants seeks compensatory damages of \$525,000 from NSC in connection with the Provident Royalties investments, and Mr. Davis seeks compensatory damages of \$207,000 from NSC in connection with his Medical Capital investments. Claimants further seek rescission, prejudgment interest, punitive damages, costs pursuant to New Jersey's Uniform Securities Law, and costs and attorneys' fees pursuant to the Texas Securities Act and the Securities Act of Washington, all in undisclosed amounts.

The Company has not yet conducted discovery into the allegations or potential defenses related to the Provident claims and it appears that each of the claimants in the FINRA Dispute Resolution may be a contemplated member of the above-discussed class action involving Provident Royalties, and that Mr. Davis may also be a contemplated member of the above-discussed class action with respect to his investments in Medical Capital IV, Medical Capital V and Medical Capital VI. The Company intends to defend itself vigorously in this action and believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

In early 2009, Vincent Falco commenced a FINRA arbitration against National Securities and two of its employees. Claimant alleges that National Securities and the registered representatives purchased unsuitable

securities, failed to follow instructions regarding the use of margin, made misrepresentations of material fact and/or omitted material facts in connection with the purchase of securities, managed the account negligently, breached their contract with Mr. Falco, breached fiduciaries duties owed to him, and violated FINRA Conduct Rules. Claimant further alleges that National Securities negligently supervised Mr. Alves and is vicariously liable for his conduct in tort, under a theory of respondeat superior. Finally, Claimant alleges violations of unidentified laws of the State of Florida. Claimant seeks compensatory damages from all respondents in the amount of \$3,000,000, punitive damages of \$9,000,000, plus disgorgement of fees, attorneys' fees, forum fees, costs and interest, all in undisclosed amounts.

National Securities timely filed a response to this claim and has begun but not yet completed discovery into the allegations and potential defenses. The Company intends to defend itself vigorously in this action, which is set for hearing in Florida on February 15-19, 2010. The Company believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

The Company's subsidiaries are defendants in various arbitrations and administrative proceedings, lawsuits and claims together alleging damages in excess of \$12,091,000. The Company estimates, to the extent that it can, that based on discussions with legal counsel and prior experience, its aggregate liability from these pending actions may be less than \$602,000 (exclusive of fees, costs and unspecified punitive damages related to certain claims and inclusive of expected insurance coverage). 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 September 30, 2009 and 2008, is \$203,000 and \$587,000 (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 \$829,000 and \$1,820,000 for the fiscal year 2009 and 2008, respectively.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders in the fourth quarter of fiscal year ended September 30, 2009.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

The following table sets forth the high and low closing sales prices for the common stock as reported on the OTCBB for the period from October 1, 2007 to September 30, 2009.

| Period | High | Low |
|-----------------------------------|---------|---------|
| October 1, 2007/December 31, 2007 | \$ 2.55 | \$ 1.42 |
| January 1, 2008/March 31, 2008 | \$ 2.80 | \$ 1.96 |
| April 1, 2008/June 30, 2008 | \$ 2.25 | \$ 1.50 |
| July 1, 2008/September 30, 2008 | \$ 1.68 | \$ 0.70 |
| Period | High | Low |
| October 1, 2008/December 31, 2009 | \$ 0.90 | \$ 0.30 |
| January 1, 2009/March 31, 2009 | \$ 0.84 | \$ 0.43 |
| April 1, 2009/June 30, 2009 | \$ 0.70 | \$ 0.41 |
| July 1, 2009/September 30, 2009 | \$ 0.75 | \$ 0.40 |

The closing price of the common stock on December 28, 2009, as quoted on the OTCBB, was \$0.65 per share.

Shareholders

As of September 30, 2009, the Company had approximately 174 shareholders of record and estimates its total number of beneficial shareholders at approximately 1,000.

Dividends

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

The holders of the Series A Convertible preferred stock are entitled to receive dividends on a quarterly basis at a rate of 9% per annum, per share. Such dividends are cumulative and accumulate whether or not declared by the Company's Board of Directors, but are payable only when and if declared by the Company's Board of Directors. In

the years ended September 30, 2009, 2007, 2006 and 2005, the Company's Board of Directors declared in-kind dividends in the aggregate of 5,407, 2,537, 1,996 and 2,143 shares of Series A preferred stock, in payment of approximately \$676,000, \$317,000, \$300,000 and \$322,000, respectively, for dividends accumulated through March 31 of each year. In March 2006, the Company's shareholders approved an amendment to decrease the conversion price of the Series A preferred stock to \$1.25 per share from \$1.50 per share. As of September 30, 2009 and 2008, the amount of accumulated dividends for the Company's 42,957 and 37,550 issued and outstanding shares of Series A preferred stock was approximately \$194,000 and \$507,000, respectively.

The holders of the Company's Series A convertible preferred stock have voting rights equal to the number of shares of common stock into which such shares of preferred stock could be converted at a particular record date.

Securities Authorized for Issuance under Equity Compensation Plans

Item 12 of Part III contains information concerning securities authorized for issuance under our equity compensation plans.

Issuer Purchases of Equity Securities

We have not announced any currently effective authorization to repurchase shares of our common stock.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. 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 Report speak only as of the date of this Report. The Company undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

We are engaged in investment banking, equity research, institutional sales and trading, independent brokerage and advisory services and asset management services through our principal subsidiaries, National Securities Corporation ("National Securities"), vFinance Investments, Inc. ("vFinance Investments") and EquityStation, Inc. ("EquityStation", 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 our retail, corporate and institutional clients.

Each of National Securities, vFinance Investments and EquityStation 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"). vFinance Investments is also subject to regulation by the National Futures Association ("NFA"). In addition, each of the Broker Dealer Subsidiaries is licensed to conduct its brokerage activities in all 50 states, plus the District of Columbia and Puerto Rico, with National Securities and vFinance Investments also being licensed in the U.S. Virgin Islands.

As of September 30, 2009, we had approximately 922 associated personnel serving retail and institutional customers, trading and investment banking clients. With the exception of our New York, New Jersey, Florida, Washington and Illinois branches, our approximately 80 other registered offices are owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses. Because these independent operators, many of whom are financial planners, are required to pay their own expenses, we generally pay them a much greater percentage of the commissions and fee income they generate, typically 70% - 90%.

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

Difficult Market Conditions

The U.S. and global economies have deteriorated to the point of a recession, and although we are seeing some signs of improvement, this recession could be long-term. We, like other companies in the financial services sector, are exposed to volatility and trends in the securities markets and the economy, generally. The market downturn and poor economic conditions have reduced overall investment banking and client activity levels. It is difficult to predict when conditions will change. Given difficult market and economic conditions, we have focused on reducing redundancies and unnecessary expense. At the same time, however, we continue to seek to selectively upgrade our talent pool given the availability of experienced professionals.

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 shareholders and/or may increase our leverage. We cannot assure you that we will be able to consummate any such potential acquisitions at all or on terms acceptable to us or, if we do, that any acquired business will be profitable. There is also a risk that we will not be able to successfully integrate acquired businesses into our existing business and operations.

Key Indicators of Financial Performance for Management

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

Acquisition of vFinance, Inc.

In July 2008, we acquired vFinance, Inc. through a merger with a newly formed wholly-owned subsidiary. The assets and liabilities acquired as well as the financial results of vFinance were included in our consolidated financial statements after the close of business on July 1, 2008, the acquisition date. The aggregate acquisition price was approximately \$17.6 million, which consisted of approximately 7,790,000 shares of Company common stock issued in exchange for all of the issued and outstanding common stock of vFinance, and direct expenses of \$0.6 million in legal fees, valuation fees, severance costs and contract cancellation costs. We accounted for the acquisition of vFinance in accordance with professional standards for “Business Combinations.”

Since July 1, 2008, our management team has been focused on the task of eliminating duplicative overhead and services, and eliminating unnecessary costs in an effort to improve bottom line performance. As of the date of this report, the Company has made considerable progress on cost cutting measures, and these savings are exceeding \$6 million dollars on an annualized basis since the merger. We fully intend to continue our efforts to conserve capital and keep costs low in an effort to improve the Company’s profitability.

Critical Accounting Policies and Estimates

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

The Company’s critical accounting policies are as follows:

Revenue Recognition - Customer security transactions and the related commission income and expense are recorded as of the trade date. Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which 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 recorded on the offering date, sales concessions on the settlement date, and underwriting fees at the time the underwriting is

completed and the income is reasonably determinable. Customers who are financing their transaction on margin are charged interest. The Company's margin requirements are in accordance with the terms and conditions mandated by its clearing firms, NFS, Penson, Legent, Fortis and Rosenthal. The interest is billed on the customer's average daily balance of the margin account.

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

The Company generally acts as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which it does not make a market, and charges commissions based on the services 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.

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 the provisions of Accounting Standard Codification 815- Derivatives and Hedging (“ASC 815”). Based on such provisions, 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).

The Company assessed the classification of its derivative financial instruments as of September 30, 2009, which consist of common stock purchase warrants, and determined that such derivatives meet the criteria for equity classification under ASC 815.

Convertible Instruments - The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments in accordance with EITF 00-19. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provide an exception to this rule when the host instrument is deemed to be conventional (as that term is described).

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with the provisions of ASC 470 20 “Debt with Conversion Options” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

The Company evaluated the conversion option embedded in the convertible preferred stock and determined, in accordance with the provisions of these statements, that such conversion option does not meet the criteria requiring bifurcation of these instruments. The characteristics of the common stock that is issuable upon a holder’s exercise of the conversion option embedded in the convertible preferred stock are deemed to be clearly and closely related to the characteristics of the preferred shares (as that term is ASC 815

Additionally, the Company’s conversion options, if free standing, would not be considered derivatives subject to the accounting guidelines prescribed under ASC 815.

Other Receivables - The Company extends unsecured credit in the normal course of business to its registered representatives. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual registered representative. The allowance for doubtful accounts reflects the amount of loss that can be reasonably estimated by management, and is included in other expenses in the accompanying consolidated statements of operations.

Effective October 1, 2005, the Company adopted ASC 718- Compensation-Stock Compensation. ASC 718 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 ASC 718, SBP awards will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period.

The Black-Scholes option valuation model was used to estimate the fair value of the options granted during the fiscal years ended September 30, 2009 and 2008. 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. In the Company's opinion, this valuation model does not necessarily provide a reliable single measure of the fair value of its employee stock options.

Results of Operations

The results of operations for fiscal year 2008 include the results of vFinance for only the fourth quarter of the fiscal year.

Fiscal Year 2009 Compared with Fiscal Year 2008

The Company's fiscal year 2009 resulted in an increase in revenues, and a lesser increase in expenses, compared with fiscal year 2008. As a result, the Company reported a net loss of \$6,432,000 compared with a net loss of \$21,017,000 for the fiscal years 2009 and 2008, respectively.

| | Fiscal Year | | Increase (Decrease) | |
|-------------------------------------|----------------|---------------|---------------------|---------|
| | 2009 | 2008 | Amount | Percent |
| Commissions | \$ 72,684,000 | \$ 50,128,000 | \$ 22,556,000 | 45% |
| Net dealer inventory gains | 24,202,000 | 16,810,000 | 7,392,000 | 44% |
| Investment banking | 2,084,000 | 1,906,000 | 178,000 | 9% |
| Interest and dividends | 1,586,000 | 3,862,000 | (2,276,000) | (59%) |
| Transfer fees and clearing services | 10,797,000 | 5,529,000 | 5,268,000 | 95% |
| Other | 5,237,000 | 3,908,000 | 1,329,000 | 34% |
| | \$ 116,590,000 | \$ 82,143,000 | \$ 34,447,000 | 42% |

Total revenues increased \$34,447,000, or 42%, in fiscal year 2009 to \$116,590,000 from \$82,143,000 in fiscal year 2008. The increase in revenues is due to:

- 1) the inclusion of a full year of revenues from the vFinance merger;
- 2) higher commission revenue resulting from higher volume of transactions made by our customers;
- 3) higher net dealer inventory gains which consist of trading, market making and mark-ups and mark-downs primarily resulting from the merger with vFinance, which was effective for three months in fiscal 2008 and a full year in fiscal 2009;
- 4) higher transfer fees and clearing services, resulting from higher volume of transactions made by our clients.

Such increases are offset by a decline in interest and dividends revenues due to lower customer margin account balances, lower customer free cash balances, and lower prevailing interest rates during fiscal 2009 when compared to the prior year.

Investment banking revenues were at similar levels in fiscal 2009 and 2008.

| | Fiscal Year | | Increase (Decrease) | |
|----------------------------------|----------------|----------------|---------------------|---------|
| | 2009 | 2008 | Amount | Percent |
| Commissions | \$ 89,431,000 | \$ 64,910,000 | \$ 24,521,000 | 38% |
| Employee compensation | 12,085,000 | 9,699,000 | 2,386,000 | 25% |
| Clearing fees | 3,180,000 | 2,952,000 | 228,000 | 8% |
| Communications | 4,242,000 | 1,632,000 | 2,610,000 | 160% |
| Occupancy and equipment costs | 5,015,000 | 3,844,000 | 1,171,000 | 30% |
| Professional fees | 3,599,000 | 2,986,000 | 613,000 | 21% |
| Interest | 1,242,000 | 680,000 | 562,000 | 83% |
| Taxes, licenses and registration | 1,371,000 | 533,000 | 838,000 | 157% |
| Other administrative expenses | 2,857,000 | 2,925,000 | (68,000) | (2%) |
| Intangible impairment | - | 12,999,000 | (12,999,000) | (100%) |
| | \$ 123,022,000 | \$ 103,160,000 | \$ 19,862,000 | 19% |

In comparison with the 42% increase in total revenues, total expenses increased 19%, or \$19,862,000, to \$123,022,000 for fiscal year 2009 compared to \$103,160,000 in fiscal year 2008. The increase in total expenses is primarily the result of greater commission expense commensurate with an increase in commission revenues and net dealer inventory gain, and increases in employee compensation and communications, and the merger with vFinance, partially offset by an intangible impairment of \$12,999,000 in fiscal year 2008.

Commission expense, which includes expenses related to commission revenue, net dealer inventory gains and investment banking, increased \$24,521,000, or 38%, to \$89,431,000 in fiscal year 2009 from \$64,910,000 in fiscal year 2008. The increase is primarily attributable to an increase in the related commission revenues from the vFinance merger. Commission expense includes the amortization of advances to registered representatives of \$1,443,000 and \$1,448,000 for fiscal years 2009 and 2008, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with our Broker Dealer Subsidiaries.

Employee compensation expense increased \$2,386,000, or 25%, to \$12,085,000 in fiscal year 2009 from \$9,699,000 in fiscal year 2008. The increase is primarily attributable to employee salaries associated with vFinance and an increase in the amortization of the fair value associated with stock based compensation. The amortization of stock based compensation is \$878,000 and \$564,000 for fiscal years 2009 and 2008, respectively. Overall, combined commission and employee compensation expense, as a percentage of revenue decreased to 87% from 91% in fiscal years 2009 and 2008, respectively, as a result of cost cutting plans implemented due to market and economic conditions.

Clearing fees increased \$228,000, or 8%, to \$3,180,000 in fiscal year 2009 from \$2,952,000 in fiscal year 2008. The increase in clearing fees is primarily attributable to costs from vFinance due to the merger. The greater increase in clearing fees as compared to the increase in commission revenue is attributable to lower average commission revenue per ticket in fiscal year 2009.

Communication expenses increased \$2,610,000, or 160%, to \$4,242,000 from \$1,632,000 in fiscal year 2009 compared to fiscal year 2008. The increase is attributable to costs from vFinance due to the merger. Occupancy costs increased \$1,171,000, or 30%, to \$5,015,000 from \$3,844,000 in fiscal year 2009 compared to fiscal year 2008. The increase in occupancy expense is due to annual rent increases contained in the Company's office leases and the addition of rented office space due to the vFinance merger. Professional fees increased \$613,000, or 21%, to \$3,599,000 from \$2,986,000 in fiscal year 2009 compared to fiscal year 2008. The increase in professional fees is primarily a result of the filing of a registration statement, costs incurred to defend and settle certain arbitrations and slightly higher legal costs associated with the merger with vFinance.

Interest expense increased \$562,000, or 83%, to \$1,242,000 from \$680,000 in fiscal year 2009 compared to fiscal year 2008. The increase in interest expense is attributable to higher weighted average debt outstanding during fiscal 2009 resulting from new convertible notes issued in March and June of fiscal year 2008. Included in interest expense is the amortization of deferred financing costs of \$49,000 and \$28,000 for fiscal years 2009 and 2008, respectively. Taxes, licenses and registration increased \$838,000, or 157%, to \$1,371,000 from \$533,000 in fiscal year 2009 compared to fiscal year 2008. The increase in taxes, licenses and registration is due to primarily attributable to costs from vFinance due to the merger. Other administrative expenses decreased \$68,000, or 2%, to \$2,857,000 from \$2,925,000 in fiscal year 2009 compared to fiscal year 2008. The decrease is primarily attributable to cost savings from vFinance due to the merger.

In fiscal year 2008, the Company recorded an impairment charge related to the intangible asset acquired in the merger with vFinance, Inc. of \$12,999,000 based on a calculation that determined that the adjusted carrying basis of its intangible assets was \$2,950,000 at September 30, 2008. The Company did not report any impairment charge for the fiscal year ended September 30, 2009.

The Company reported a net loss of \$6,432,000 in fiscal year 2009 compared to a net loss of \$21,017,000 in fiscal year 2008. The net loss attributable to common stockholders in fiscal year 2009 was \$6,794,000, or \$0.41 per common share, as compared to a net loss attributable to common of \$21,355,000, or \$2.02 per common share in fiscal year 2008. The net loss attributable to common stockholders for fiscal years 2009 and 2008 reflects \$362,000 and \$338,000, respectively, of cumulative Preferred Stock dividends on the Company's Preferred Stock.

Liquidity and Capital Resources

For the periods ended September 30, 2009 and 2008, 61% and 54% of our total assets consisted of cash and cash equivalents, 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. Allocation of cash into marketable securities classes are dependent upon overall market activity, but the majority of our securities owned are in municipal securities and common stock.

Our Broker Dealer Subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer's net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of \$250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At September 30, 2009, National Securities' net capital exceeded the requirement by \$239,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of \$1,000,000 and EquityStation is required to maintain \$100,000, and at September 30, 2009 the firms had excess net capital of \$295,000 and \$86,000 respectively.

Advances, dividend payments and other equity withdrawals from the Company's 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 2009 and 2008, the broker dealer subsidiaries were in compliance with the rules governing dividend payments and other equity withdrawals.

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

The objective of liquidity management is to ensure that the Company has ready access to sufficient funds to meet commitments, fund deposit withdrawals and efficiently provide for the credit needs of customers.

Our primary sources of liquidity include our cash flow from operations, the sale of our securities and other financing activities. We believe that we have sufficient funds from operations to fund our ongoing operating requirements through at least 2010.

Cash used in operating activities for the fiscal year 2009 amounted to \$377,000, which was primarily due to our net loss of \$6,432,000, reduced by non cash adjustments of \$1,336,000 in depreciation and amortization, \$878,000 in stock compensation expense and \$435,000 in amortization of note discount. A decrease in receivables from our clearing firms of \$612,000, a decrease in securities owned at market value of \$494,000, a decrease in other assets of \$250,000, and an increase in accounts payable and accrued expenses of \$2,143,000 further contributed to the reduction in cash used in operations.

Cash used in investing activities for fiscal year 2009 amounted to \$635,000, which was due to the need to purchase fixed assets under mostly capital leases due to the move of our vFinance Boca Raton data center into a co-location facility in Miami, Florida, the move of our Boca Raton office to a new location and the ongoing upgrade of technology in our Downtown Manhattan office.

Cash provided by financing activities for fiscal year 2009 amounted to \$118,000, which was due to the proceeds from the Company securing a subordinated loan of \$350,000 and net proceeds from the issuance of securities in a private placement (net of costs) of \$268,000, offset by the repayment of notes payable of \$500,000.

Cash used in operating activities for the fiscal year 2008 amounted to \$6,055,000, which was primarily due to our net loss of \$21,017,000, reduced by non cash adjustments of \$12,999,000 for the impairment of intangible assets, \$1,140,000 in depreciation and amortization and \$1,218,000 in stock compensation expense. A decrease in receivables from our clearing firms of \$1,933,000 offset by a decrease in accounts payable and accrued expenses of \$2,461,000 further contributed to this use of cash.

Cash provided by investing activities for fiscal year 2008 amounted to \$3,149,000, which was due to cash received from the merger with vFinance of \$3,620,000, offset by the purchase of fixed assets of \$471,000.

Cash provided by financing activities for fiscal year 2008 amounted to \$2,430,000, which was due to the proceeds from the Company's issuance of \$6,000,000 worth of convertible notes payable and the proceeds from the exercise of stock options of \$17,000, offset by the capitalized merger costs of \$505,000 and the payment of deferred financing costs of \$176,000.

National Securities entered into a secured demand note collateral agreement with an employee of National Securities and a former Director of the Company to borrow securities that can be used by the Company for collateral agreements. The holder also entered into a warrant agreement to purchase 150,000 shares of common stock at a price of \$1.25 per share, with an expiration date of July 31, 2009. In fiscal year 2009, upon the maturity of the aforementioned note, the lender opted to not renew the note and as such, the note is presently in "Suspended Repayment" status, as defined in the original note and in accordance with SEC rules.

On March 31, 2008, the Company completed a financing transaction under which St. Cloud Capital Partners II, L.P. ("St. Cloud"), an affiliated entity of Marshall S. Geller, a director of the Company, made an investment in the Company by purchasing a convertible promissory note in the principal amount of \$3.0 million, with a warrant to purchase 375,000 shares of common stock at an exercise price of \$2.50 per share. The promissory note matures in March 2012, is convertible into common stock at a price of \$2.00 per share and has a stated interest rate of 10% per annum. In accordance with professional standards the relative fair value of the warrant was calculated using the Black-Scholes Option Valuation Model. The Company also recorded an additional debt discount for the beneficial conversion feature of the instrument. These amounts, totaling approximately \$791,000, have been recorded as a debt discount that will be charged to interest expense over the life of the promissory note.

On June 30, 2008, the Company completed a financing transaction under which the same investor made an additional investment in the Company by purchasing a convertible promissory note in the principal amount of \$3.0 million, with a warrant to purchase 468,750 shares of common stock at an exercise price of \$2.00 per share. The promissory note matures in June 2012, is convertible into common stock at a price of \$1.60 per share and has a stated interest rate of 10% per annum. In accordance with professional standards the relative fair value of the warrant was calculated using the Black-Scholes Option Valuation Model. The Company also recorded an additional debt discount for the beneficial conversion feature of the instrument. These amounts, totaling approximately \$789,000, have been recorded as a debt discount that will be charged to interest expense over the life of the promissory note.

The Company and the investor entered into registration rights agreements, wherein the Company has agreed to file a registration statement for the shares of common stock issuable upon conversion of the note and exercise of the warrant. Robert W. Lutz, Jr., a Managing Director of St. Cloud, became a member of the board of directors of the Company concurrent with the closing of the June 2008 financing transaction. The Company incurred legal fees and other costs related to these capital transactions of approximately \$101,000 and \$75,000, respectively that were capitalized and will be amortized to interest expense over the life of the promissory notes. The Company has filed a registration statement that includes a portion of the securities covered by the convertible notes and warrants, but is has not yet been declared effective.

In April 2005, National Securities entered into a clearing agreement with NFS that became effective in June 2005. In the first quarter of fiscal year 2007, NFS paid National Securities a \$750,000 general business credit that is being amortized over an eight year period ending November 2014, corresponding with the expiration date of the clearing agreement. In the second quarter of fiscal year 2007, NFS provided National Securities a \$250,000 clearing fee waiver being amortized over a two year period ended December 2008, corresponding with the time period that certain performance standards were to be achieved. The clearing agreement includes a termination fee if National Securities terminates the agreement without cause. The Broker Dealer Subsidiaries currently have clearing agreements with NFS, Penson, Legent, Fortis and Rosenthal. The Company believes that the overall effect of its clearing relationships has been beneficial to the Company's cost structure, liquidity and capital resources.

In April 2009, the Company completed a financing transaction with an unaffiliated third party under which the investor purchased a promissory note in the principal amount of \$500,000, which was subsequently converted into 666,666 shares of the Company's common stock.

In June 2009, National Securities was approved by FINRA to receive a Subordinated loan from Legent for \$100,000. This loan was granted subsequent to National Securities signing a clearing agreement with Legent, to clear a portion of the business. This loan accrues interest at the rate of 4.5% but both interest and principal are forgivable after one year as long as National Securities remains in good standing with Legent.

In July 2009, National Securities was approved by FINRA to receive an additional Subordinated loan from Legent for \$250,000, also bearing interest at the rate of 4.5% payable monthly. This loan was granted subsequent to National Securities signing a clearing agreement with Legent, to clear a portion of the business. This loan is scheduled to begin principal repayment at a minimum of \$10,000 per month or \$10 per transaction whichever is greater, starting July 31, 2010. Some or all of this repayment may be funded by transactional credits depending on the amount of business conducted through Legent on a monthly basis.

As of September 30, 2009, advances to registered representatives decreased \$1,583,000 to \$2,880,000 from \$4,463,000 as of September 30, 2008. This decrease is attributable to the amortization of advances in fiscal year 2009 for loans made during 2009 and prior years offset by new advances made to registered representatives who became affiliated with National Securities during fiscal year 2009.

In fiscal years 2009 and 2008, the Company received proceeds of approximately \$0 and \$17,000, respectively, from the exercise of outstanding employee stock options and warrants.

The Company has historically satisfied its capital needs with cash generated from operations or from financing activities. The Company believes that it will have sufficient funds to maintain its current level of business activities during fiscal year 2010. If market conditions should weaken, the Company would need to consider curtailing certain of its business activities, reducing its fixed overhead costs and/or seek additional sources of financing.

The following table shows the contractual obligations of the Company as of September 30, 2009:

| Fiscal Year Ending | Notes Payable | Secured Demand and Subordinated | | Total |
|---------------------|---------------|---------------------------------|---------------|---------------|
| | | Notes | Leases | |
| 2010 | \$ 500,000 | \$ 850,000 | \$ 3,887,000 | \$ 5,237,000 |
| 2011 | - | - | 3,712,000 | 3,712,000 |
| 2012 | 6,000,000 | - | 3,126,000 | 9,126,000 |
| 2013 | - | - | 2,319,000 | 2,319,000 |
| Thereafter | - | - | 1,492,000 | 1,492,000 |
| Less: Debt discount | (1,036,000) | - | - | (1,036,000) |
| | \$ 5,464,000 | \$ 850,000 | \$ 14,536,000 | \$ 20,850,000 |

Inflation

The Company believes that the effect of inflation on its assets, consisting of cash, securities, office equipment, leasehold improvements and computers has not been significant.

Recently Issued Accounting Standards

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". The new standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the issuance of financial statements. Specifically, the standard sets forth: 1) the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances that an entity should recognize events or transactions that occur after the balance sheet date, and 3) the disclosures that an entity should make about events or transactions that occur after the balance sheet date.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles- a replacement of FASB Statement No. 162". The new standard sets forth that the FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied to nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also source for authoritative GAAP for SEC registrants. When the statement is effective, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. As of September 30, 2009, the Company has adopted this policy.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 market values of the Company's marketable and non-marketable securities owned and securities sold, but not yet purchased as of September 30, 2009:

| | Securities owned | Securities sold, but not yet purchased |
|--|------------------|---|
| Corporate stocks –marketable | \$ 86,000 | \$ 4,000 |
| Corporate bonds – marketable | 3,000 | - |
| Municipal bonds - marketable | 542,000 | |
| Restricted stock and warrants – non-marketable | 60,000 | - |
| | \$ 691,000 | \$ 4,000 |

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Part IV, Item 15(a)(1) for a list of financial statements filed as part of this Report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with accountants on accounting and financial disclosure for the fiscal year ended September 30, 2009.

Item 9A. 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”), recorded, processed, summarized and reported within the time period specified by the Commission’s rules and forms. Disclosure and control procedures are also designed to ensure that such information is accumulated and communicated to management, including the chief executive officer and principal accounting officer, to allow timely decisions regarding required disclosures. 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 the evaluation of the Company’s 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), the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its 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.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a - 15(f) of the Securities Exchange Act of 1934.

The Company's management conducted an evaluation of the effectiveness of its internal control over financial reporting, as of September 30, 2009, based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2009.

Management believes that a controls system, no matter how well designed and operated, can not provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

This management report on internal control over financial reporting shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to the liabilities of that Section.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Commission that permit us to provide only management's report in this Annual report.

Changes in internal controls: We have continually had in place systems relating to internal controls over financial reporting. There were no significant changes in the Company's internal controls over financial reporting identified with the evaluation thereof during the fiscal year ended September 30, 2009 or in other factors that could significantly affect those controls and procedures subsequent to the date of our evaluation nor any significant deficiencies or material weaknesses in such controls and procedures requiring corrective actions.

Item 9B. OTHER INFORMATION

There is no other information to be disclosed by the Company during the fourth quarter of fiscal year 2009 that has not been reported on a current report on Form 8-K.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The other information required by this Item will be included in the Company's 2010 Proxy Statement and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in the Company's 2010 Proxy Statement and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included in the Company's 2010 Proxy Statement and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included in the Company's 2010 Proxy Statement and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be included in the Company's 2010 Proxy Statement and is incorporated herein by reference.

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following financial statements are included in Part II, Item 8:

1. Financial Statements
Independent Auditors' Reports
Consolidated Financial Statements
Statements
of Financial
Condition,
September
30, 2009 and
September
30, 2008
Statements
of Operations
for the Years
ended
September
30, 2009 and
September
30, 2008

Statement
of Changes in
Stockholders'
Equity for the
Years ended
September
30, 2009 and
September
30, 2008

Statements
of Cash
Flows for the
Years ended
September
30, 2009 and
September
30, 2008

Notes
to
Consolidated
Financial
Statements

2. Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable or have been included in footnotes to the consolidated financial statements.

(b) See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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
(Registrant)

Date: December 29, 2009

By: /s/Mark Goldwasser
Mark Goldwasser
Chairman and Chief Executive Officer

Date: December 29, 2009

By: /s/Alan B. Levin
Alan B. Levin
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: December 29, 2009

By: /s/Mark Goldwasser
Mark Goldwasser,
Chairman and Chief Executive Officer

Date: December 29, 2009

By: /s/Leonard J. Sokolow
Leonard J. Sokolow
Vice Chairman and President

Date:

By:
Christopher C. Dewey
Vice Chairman

Date: December 29, 2009

By: /s/Marshall S. Geller
Marshall S. Geller, Director

Date: December 29, 2009

By: /s/Robert W. Lautz, Jr.
Robert W. Lautz, Jr., Director

Date: December 29, 2009

By: /s/Charles R. Modica
Charles R. Modica, Director

Date:

By:
Jorge A. Ortega, Director

EXHIBIT INDEX

- 2.1 Agreement and Plan of Merger, dated as of November 7, 2007 by and among National, vFinance, Inc. and vFin Acquisition Corporation, previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 8 2007 and hereby incorporated by reference.
- 2.2 Amendment No. 1 to the Agreement and Plan of Merger, dated April 17, 2008 by and among National, vFinance, Inc. and vFin Acquisition Corporation, previously filed as Exhibit 2.2 to the Company's Registration Statement on Form S-4 in April 2008 and hereby incorporated by reference.
- 3.1 The Company's Certificate of Incorporation, as amended, previously filed as Exhibit 3.5. to Form 10-Q in May 2004 and hereby incorporated by reference.
- 3.2 The Company's Bylaws, as amended, previously filed as Exhibit 3.3 to Form 10-Q in February 2002, and hereby incorporated by reference.
- 3.3 Certificate of Designations, Preferences, and Relative Optional or Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Convertible Preferred Stock, as amended, previously filed as Exhibit 3.6 to Form 10-Q in May 2004 and hereby incorporated by reference.
- 3.4 Certificate of Designation of Series B Preferred Stock, filed with the Secretary of State of the State of Delaware on January 11, 2006, previously filed as Exhibit 3.5 to Form 8-K in January 2006 and hereby incorporated by reference.
- 3.5 Certificate of Amendment to the Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on March 15, 2006 filed as Exhibit 3.6 to Form 10-Q in May 2006 and hereby incorporated by reference.
- 3.6 Certificate of Amendment to the Certificate of Designation of Series A Preferred Stock, filed with the Secretary of State of the State of Delaware on March 15, 2006 filed as Exhibit 3.7 to Form 10-Q in May 2006 and hereby incorporated by reference.
- 3.7 Certificate of Amendment to the Certificate of Incorporation, previously filed as Exhibit 3.8 to Amendment No. 1 to the Company's Registration Statement on Form S-4, dated May 6, 2008 and hereby incorporated by reference.
- 4.1 Form of Warrant, previously filed as Exhibit 4.4 to Form 8-K in February 2007 and hereby incorporated by reference.
- 4.2 Form of 10% Promissory Note, previously filed as Exhibit 4.5 to Form 8-K in February 2007 and hereby incorporated by reference.
- 4.3 Form of Warrant, previously filed as Exhibit 4.6 to Form 8-K in April 2008 and hereby incorporated by reference.
- 4.4 Form of 10% Senior Subordinated Convertible Promissory Note, previously filed as Exhibit 4.7 to Form 8-K in April 2008 and hereby incorporated by reference.
- 4.5 Warrant, dated as of June 30, 2008, previously filed as Exhibit 4.8 to Form 8-K in July 2008 and hereby incorporated by reference.
- 4.6 10% Senior Subordinated Convertible Promissory Note dated June 30, 2008, previously filed as Exhibit 4.9 to Form 8-K in July 2008 and hereby incorporated by reference.
- 4.7 Warrant, dated as of September 9, 2009.
- 4.8 Warrant, dated as of September 9, 2009 to Christopher C. Dewey.
- 10.1 Office lease, Chicago, Illinois, previously filed as Exhibit 10.27 to Form 10-K in December 1996 and hereby incorporated by reference.
- 10.2 Amended office lease, Chicago, Illinois, previously filed as Exhibit 10.29 to Form 10-K in December 1996 and hereby incorporated by reference.
- 10.3 Office lease, Seattle, Washington previously filed as Exhibit 10.20 to Form 10-K in December 1999 and hereby incorporated by reference.

- 10.4* 2001 Stock Option Plan, previously included in the Proxy Statement-Schedule 14A filed in January 2001 and hereby incorporated by reference.
- 105 Registration Rights Agreement dated as of January 11, 2006 by and among Olympic Cascade Financial Corporation and the investors set forth therein filed as Exhibit 10.49 to Form 8-K in January 2006 and hereby incorporated by reference.

- 10.6 Registration Rights Agreement, dated as of February 22, 2007 by and among National Holdings Corporation and the investors set forth therein filed as Exhibit 10.53 to Form 8-K in February 2007 and hereby incorporated by reference.
- 10.7* 2006 Stock Option Plan, previously included in the Proxy Statement-Schedule 14A filed in January 2006 and hereby incorporated by reference.
- 10.8* 2008 Stock Option Plan, previously included in the Proxy Statement-Schedule 14A filed in January 2008 and hereby incorporated by reference.
- 10.9 Securities Purchase Agreement, dated as of March 31, 2008 by and among National Holdings Corporation and St. Cloud Capital Partners II, L.P., previously filed as Exhibit 10.31 to Form 8-K in April 2008 and hereby incorporated by reference.
- 10.10 Registration Rights Agreement, dated as of March 31, 2008 by and among National Holdings Corporation and St. Cloud Capital Partners II, L.P., previously filed as Exhibit 10.32 to Form 8-K in April 2008 and hereby incorporated by reference.
- 10.11 Agreement, dated April 16, 2008, by and between the Company and St. Cloud Capital Partners II, L.P, previously filed as Exhibit 10.33 to Amendment No. 1 to the Company's Registration Statement on Form S-4, filed May 9, 2008 and hereby incorporated by reference.
- 10.12 Securities Purchase Agreement, dated as of June 30, 2008 by and between National Holdings Corporation and St. Cloud Capital Partners II, L.P., previously filed as Exhibit 10.34 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.13 Registration Rights Agreement, dated as of June 30, 2008 by and between National Holdings Corporation and St. Cloud Capital Partners II, L.P., previously filed as Exhibit 10.35 to Form -K in July 2008 and hereby incorporated by reference.
- 10.14* Employment Agreement, dated as of July 1, 2008, by and between the Company and Mark Goldwasser, previously filed as Exhibit 10.36 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.15* Employment Agreement, dated as of July 1, 2008, by and between the Company and Leonard J. Sokolow, previously filed as Exhibit 10.37 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.16* Employment Agreement, dated as of July 1, 2008, by and between the Company and Alan B. Levin previously filed as Exhibit 10.38 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.17* Option Agreement, dated as of July 1, 2008, by and between the Company and Mark Goldwasser, previously filed as Exhibit 10.39 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.18* Option Agreement, dated as of July 1, 2008, by and between the Company and Leonard J. Sokolow previously filed as Exhibit 10.40 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.19 Voting Agreement, dated as of July 1, 2008, by and among the Company, Mark Goldwasser, Leonard J. Sokolow and Christopher C. Dewey previously filed as Exhibit 10.41 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.20 Termination Agreement, dated as of July 1, 2008, by and between vFinance, Inc. and Leonard J. Sokolow previously filed as Exhibit 10.42 to Form 8-K in July 2008 and hereby incorporated by reference.
- 10.21 Forbearance Agreement, dated as of February 24, 2009, by and between the Company and St. Cloud Capital Partners, L.P. previously filed as Exhibit 10.23 to Form 8-K in March 2009 and hereby incorporated by reference.
- 10.22 Forbearance Agreement, dated as of February 25, 2009, by and between the Company and Bedford Oaks Partners, L.P. previously filed as Exhibit 10.24 to Form 8-K in March 2009

and hereby incorporated by reference.

- 10.23 Forbearance Agreement, dated as of February 25, 2009, by and between the Company and Christopher C. Dewey previously filed as Exhibit 10.25 to Form 8-K in March 2009 and hereby incorporated by reference.
- 10.24 Amendment No. 1 to Forbearance Agreement, dated as of April 6, 2009, by and between the Company and St. Cloud Capital Partners, L.P. previously filed as Exhibit 10.26 to Form 8-K in April 2009 and hereby incorporated by reference.
- 10.25 Forbearance Agreement, dated as of April 6, 2009, by and between the Company and St. Cloud Capital Partners II, L.P. previously filed as Exhibit 10.26 to Form 8-K in April 2009 and hereby incorporated by reference.
- 10.26 Amendment No. 1 to Forbearance Agreement, dated as of May 6, 2009, by and between the Company and Christopher C. Dewey previously filed as Exhibit 10.28 to Form 10-Q in May 2009 and hereby incorporated by reference.

- 10.27 Amendment No. 1 to Forbearance Agreement, dated as of May 6, 2009, by and between National Holdings Corporation and Bedford Oak Partners, L.P. previously filed as Exhibit 10.29 to Form 10-Q in May 2009 and hereby incorporated by reference.
- 10.28 Amendment No.2 to Forbearance Agreement, dated as of May 14, 2009, by and between National Holdings Corporation and Christopher C. Dewey previously filed as Exhibit 10.30 to Form 10-Q in May 2009 and hereby incorporated by reference.
- 10.29 Amendment No.2 to Forbearance Agreement, dated as of May 14, 2009, by and between National Holdings Corporation and Bedford Oak Partners, L.P. previously filed as Exhibit 10.31 to Form 10-Q in May 2009 and hereby incorporated by reference.
- 10.30 Amendment No.3 to Forbearance Agreement, dated as of May 29, 2009, by and between National Holdings Corporation and Christopher C. Dewey previously filed as Exhibit 10.34 to Form 10-Q in August 2009 and hereby incorporated by reference.
- 10.31* Amendment No. 1 to Employment Agreement, dated as of November 23, 2009, by and between the Company and Mark Goldwasser.
- 10.32* Letter Agreement, dated as of November 23, 2009, by and between the Company and Mark Goldwasser.
- 10.33* Amendment No. 1 to Employment Agreement, dated as of November 23, 2009, by and between the Company and Leonard Sokolow.
- 10.34* Letter Agreement, dated as of November 23, 2009, by and between the Company and Leonard Sokolow.
- 14. The Code of Ethics filed as Exhibit 14 to Form 10-K in December 2003 and hereby incorporated by reference.
- 16.1 Change in Certifying Accountant, previously filed in Form 8-K in September 2008 and hereby incorporated by reference.
- 21. Subsidiaries of Registrant previously filed as Exhibit 21 to Form 10-K in December 2008 and hereby incorporated by reference.
- 23.1 Consent of Sherb & Co., LLP.
- 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.

*Compensatory agreements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
National Holdings Corporation

We have audited the accompanying consolidated statements of financial condition of National Holdings Corporation and Subsidiaries (the "Company") as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended September 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Holdings Corporation and Subsidiaries as of September 30, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the two years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ Sherb & Co., LLP
Certified Public Accountants

Boca Raton, Florida
December 23, 2009

F-1

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
ASSETS

| | September 30, | |
|--|---------------------|---------------------|
| | 2009 | 2008 |
| Current Assets | | |
| Cash | \$6,493,000 | \$7,387,000 |
| Deposit with clearing organizations | 1,212,000 | 1,210,000 |
| Receivables from broker dealers and clearing organizations | 4,910,000 | 3,691,000 |
| Other receivables, net of allowance for uncollectible accounts of \$402,000 and \$630,000 at September 30, 2009 and 2008, respectively | 332,000 | 580,000 |
| Advances to registered representatives - Current portion | 1,784,000 | 3,033,000 |
| Securities owned: marketable – at market value | 631,000 | 976,000 |
| Securities owned: nonmarketable – at fair value | 60,000 | 48,000 |
| Total Current Assets | 15,422,000 | 16,925,000 |
| Advances to registered representatives - Long term portion | 1,096,000 | 1,430,000 |
| Fixed assets, net | 1,163,000 | 1,243,000 |
| Secured demand note | 500,000 | 500,000 |
| Intangible assets, net | 2,329,000 | 2,950,000 |
| Other assets | 1,132,000 | 1,429,000 |
| Total Assets | \$21,642,000 | \$24,477,000 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|-------------------|-------------------|
| Current Liabilities | | |
| Payable to broker dealers and clearing organizations | \$299,000 | \$730,000 |
| Securities sold, but not yet purchased, at market | 4,000 | 63,000 |
| Accounts payable, accrued expenses and other liabilities - Current portion | 14,162,000 | 11,724,000 |
| Notes payable, net of debt discounts of \$0 and \$41,000 at September 30, 2009 and 2008, respectively | 500,000 | 959,000 |
| Total Current Liabilities | 14,965,000 | 13,476,000 |
| Accrued expenses and other liabilities - Long term portion | 719,000 | 611,000 |
| Convertible notes payable, net of debt discount of \$1,036,000 and \$1,431,000 at September 30, 2009 and 2008, respectively | 4,964,000 | 4,569,000 |
| Total Liabilities | 20,648,000 | 18,656,000 |
| Subordinated borrowings | 850,000 | 500,000 |
| Stockholders' Equity | | |
| Preferred stock, \$.01 par value, 200,000 shares authorized; 50,000 shares designated as Series A and 20,000 shares designated as Series B | - | - |
| Series A 9% cumulative convertible preferred stock, \$.01 par value, 50,000 shares authorized; 42,957 shares issued and outstanding (liquidation preference: \$4,295,700) at September 30, 2009 and 37,550 shares issued and outstanding (liquidation preference: \$3,755,000) at September 30, 2008 | - | - |
| Series B 10% cumulative convertible preferred stock, \$.01 par value, 20,000 shares authorized; 0 shares issued and outstanding (liquidation preference: \$0 at September 30, 2009 and September 30, 2008, respectively) | - | - |

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

| | | |
|--|----------------|------------------|
| Common stock, \$.02 par value, 50,000,000 shares authorized; 17,151,704 and 16,422,538 shares issued and outstanding, at September 30, 2009 and 2008, respectively | 343,000 | 328,000 |
| Additional paid-in capital | 41,195,000 | 39,279,000 |
| Accumulated deficit | (41,394,000) | (34,286,000) |
| Total Stockholders' Equity | 144,000 | 5,321,000 |
| Total Liabilities and Stockholders' Equity | \$21,642,000 | \$24,477,000 |

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

F-2

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| REVENUES | | |
| Commissions | \$72,684,000 | \$50,128,000 |
| Net dealer inventory gains | 24,202,000 | 16,810,000 |
| Investment banking | 2,084,000 | 1,906,000 |
| Total commission and fee revenues | 98,970,000 | 68,844,000 |
| Interest and dividends | 1,586,000 | 3,862,000 |
| Transfer fees and clearing services | 10,797,000 | 5,529,000 |
| Other | 5,237,000 | 3,908,000 |
| TOTAL REVENUES | 116,590,000 | 82,143,000 |
| EXPENSES | | |
| Commissions and fees | 89,431,000 | 64,910,000 |
| Employee compensation and related expenses | 12,085,000 | 9,699,000 |
| Clearing fees | 3,180,000 | 2,952,000 |
| Communications | 4,242,000 | 1,632,000 |
| Occupancy and equipment costs | 5,015,000 | 3,844,000 |
| Professional fees | 3,599,000 | 2,986,000 |
| Interest | 1,242,000 | 680,000 |
| Taxes, licenses, registration | 1,371,000 | 533,000 |
| Other administrative expenses | 2,857,000 | 2,925,000 |
| Intangible impairment | - | 12,999,000 |
| TOTAL EXPENSES | 123,022,000 | 103,160,000 |
| Net loss | (6,432,000) | (21,017,000) |
| Preferred stock dividends | (362,000) | (338,000) |
| Net loss attributable to common stockholders | \$(6,794,000) | \$(21,355,000) |
| LOSS PER COMMON SHARE | | |
| Net income (loss) attributable to common stockholders | | |
| Basic and diluted: | \$(0.41) | \$(2.02) |
| Weighted average number of shares outstanding: | | |
| Basic and diluted | 16,760,243 | 10,579,778 |

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2009 and SEPTEMBER 30, 2008

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|-----------------|------|--------------|------------|----------------------------------|------------------------|---|
| | Shares | \$ | Shares | \$ | | | |
| BALANCE, September 30, 2007 | 37,550 | \$ - | 8,602,628 | \$ 172,000 | \$ 19,919,000 | \$ (13,269,000) | \$ 6,822,000 |
| Common stock issued in connection with merger | - | - | 7,789,910 | 155,000 | 16,547,000 | - | 16,702,000 |
| Exercise of stock options | - | - | 30,000 | 1,000 | 16,000 | - | 17,000 |
| Warrants issued in connection with debt | - | - | - | - | 1,579,000 | - | 1,579,000 |
| Amortization of deferred compensation | - | - | - | - | 1,218,000 | - | 1,218,000 |
| Net loss | - | - | - | - | - | (21,017,000) | (21,017,000) |
| BALANCE, September 30, 2008 | 37,550 | - | 16,422,538 | 328,000 | 39,279,000 | (34,286,000) | 5,321,000 |
| Common stock issued in private placement | - | - | 666,666 | 14,000 | 254,000 | - | 268,000 |
| Issuance of stock options | - | - | - | - | 878,000 | - | 878,000 |
| Common stock issued in exchange for services | - | - | 62,500 | 1,000 | 62,000 | - | 63,000 |
| Issuance of Series A preferred stock dividend | 5,407 | | | | 676,000 | (676,000) | |
| Forbearance agreement warrant repricing | - | - | - | - | 46,000 | - | 46,000 |
| Net loss | - | - | - | - | - | (6,432,000) | (6,432,000) |
| BALANCE, September 30, 2009 | 42,957 | \$ - | 17,151,704 | \$ 343,000 | \$ 41,195,000 | \$ (41,394,000) | \$ 144,000 |

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended | |
|---|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$(6,432,000 |) \$(21,017,000) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities | | |
| Impairment of intangible asset | - | 12,999,000 |
| Depreciation and amortization | 1,336,000 | 1,140,000 |
| Amortization of deferred financing costs | 49,000 | - |
| Amortization of note discount | 435,000 | 245,000 |
| Compensatory element of common stock option issuances | 878,000 | 1,218,000 |
| Warrant issuance and repricing for forbearance of notes payable | 46,000 | - |
| Fair value of shares issued in exchange for services and deferred comp | 63,000 | 28,000 |
| Unrealized loss on securities | (150,000 |) - |
| Changes in assets and liabilities | | |
| Deposits with clearing organizations | (2,000 |) (2,000) |
| Receivables from broker-dealers, clearing organizations and others | 612,000 | 1,933,000 |
| Securities owned: marketable, at market value | 494,000 | 299,000 |
| Securities owned: non-marketable, at fair value | (11,000 |) (2,000) |
| Other assets | 250,000 | (392,000) |
| Payables | 2,115,000 | (2,489,000) |
| Securities sold, but not yet purchased, at market | (60,000 |) (15,000) |
| Net cash used in operating activities | (377,000 |) (6,055,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash received in merger | - | 3,620,000 |
| Purchase of fixed assets | (635,000 |) (471,000) |
| Net cash provided by (used in) investing activities | (635,000 |) 3,149,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of notes payable | (500,000 |) - |
| Net proceeds from issuance of convertible notes payable | - | 6,000,000 |
| Net proceeds from subordinated borrowings | 350,000 | - |
| Net proceeds from private placement | 268,000 | - |
| Cash payment of deferred financing costs | - | (176,000) |
| Capitalized merger costs | - | (505,000) |
| Exercise of stock options | - | 17,000 |
| Net cash provided by financing activities | 118,000 | 5,336,000 |
| NET INCREASE (DECREASE) IN CASH | (894,000 |) 2,430,000 |
| CASH BALANCE | | |
| Beginning of the year | 7,387,000 | 4,957,000 |
| End of the year | \$6,493,000 | \$7,387,000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | \$574,000 | \$528,000 |

| | | |
|--|------------|--------------|
| Income taxes | \$ 80,000 | - |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Warrants issued in connection with debt | \$ 112,500 | \$ 1,579,000 |
| Series A preferred stock dividends | \$ 362,000 | \$ - |

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

F-5

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 and SEPTEMBER 30, 2008

NOTE 1. ORGANIZATION

National Holdings Corporation (“National” or the “Company”), a Delaware corporation organized in 1996, is a financial services organization, operating primarily through its wholly owned subsidiaries, National Securities Corporation (“National Securities”), vFinance Investments, Inc. (“vFinance Investments”) and EquityStation, Inc. (“EquityStation”) (collectively, the “Broker Dealer Subsidiaries”). The Broker Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington. On March 15, 2006, the Company changed its name from “Olympic Cascade Financial Corporation” to “National Holdings Corporation.” On July 1, 2008, National consummated a merger with vFinance, Inc. (“vFinance”).

Through its Broker Dealer Subsidiaries, the Company offers (1) full service retail brokerage to approximately 63,000 high net worth and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) engages in trading securities, including making markets in over 4,000 micro and small cap stocks and provides liquidity in the United States Treasury marketplace. The Broker Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations on a fully disclosed basis. They are registered with the Securities and Exchange Commission (“SEC”), are members of the Financial Industry Regulatory Authority (“FINRA”) (formerly the National Association of Securities Dealers) and Securities Investor Protection Corporation (“SIPC”). vFinance Investments is also a member of the National Futures Association (“NFA”).

In July 1994, National Securities formed a wholly owned subsidiary, National Asset Management, Inc., a Washington corporation (“NAM”). 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. In March 2008, all of the issued and outstanding stock of NAM was transferred from National Securities to National.

National formed a new wholly owned subsidiary, National Insurance Corporation, a Washington corporation (“National Insurance”) in the third quarter of fiscal year 2006. National Insurance provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities. National Insurance finalized certain requisite state registrations during the second quarter of fiscal year 2007 and commenced business operations that to date have been de minimus.

vFinance Lending Services, Inc. (“vFinance Lending”), originally formed as a wholly owned subsidiary of vFinance, was established in May 2002. It is a mortgage lender focused primarily on the commercial sector, providing bridge loans and commercial mortgages through its nationwide network of lenders. Its operations to date have been de minimus.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of National and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The acquired operations of vFinance have been included from the date of the merger (“July 1, 2008”) through September 30, 2009.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 those estimates.

Reclassifications

Certain items in the 2008 financial statements have been reclassified to conform to the presentation in the 2009 financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

F-6

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"), Penson Financial Services, Inc. ("Penson"), Legent Clearing LLC ("Legent"), Fortis Securities, LLC ("Fortis") and Rosenthal Collins Group, LLC. ("Rosenthal"). 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 recorded on the offering date, sales concessions on the settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Net trading profits 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. Net trading profits 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.

Other revenue consists primarily of investment advisory fees and account management fees for high net worth clients. These fees are determined based on a percentage of the customers assets under management, are billed quarterly and recognized when collected.

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 carrying amounts reported in the balance sheet for cash, receivables, accounts payable, accrued expenses and other liabilities approximates fair value based on the short-term maturity of these instruments.

F-7

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.

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).

The Company assessed the classification of its derivative financial instruments as of September 30, 2009, which consist of common stock purchase warrants, and determined that such derivatives are accounted for in accordance with professional standards.

Convertible Instruments

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

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

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

conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

The Company evaluated the conversion option embedded in the convertible preferred stock and determined, in accordance with the provisions of these statements, that such conversion option does not meet the criteria requiring bifurcation of these instruments. The characteristics of the common stock that is issuable upon a holder's exercise of the conversion option embedded in the convertible preferred stock are deemed to be clearly and closely related to the characteristics of the preferred shares. Additionally, the Company's conversion options, if free standing, would not be considered derivatives subject to the accounting guidelines prescribed in accordance with professional standards.

F-8

Net Income (Loss) per Common Share

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

| | Years Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Numerator: | | |
| Net loss | \$ (6,432,000) | \$ (21,017,000) |
| Preferred stock dividends | (362,000) | (338,000) |
| Numerator for basic earnings per share--net income (loss) attributable to common stockholders - as reported | (6,794,000) | (21,355,000) |
| Effect of dilutive securities: | | |
| Series A preferred stock | - | - |
| Numerator for diluted earnings per share--net income (loss) attributable to common stockholders - as adjusted | \$ (6,794,000) | \$ (21,355,000) |
| Denominator: | | |
| Denominator for basic earnings per share--weighted average shares | 16,760,243 | 10,579,778 |
| Effect of dilutive securities: | | |
| Assumed conversion of Series A preferred stock | - | - |
| Stock options | - | - |
| Warrants | - | - |
| Dilutive potential common shares | - | - |
| Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions | 16,760,243 | 10,579,778 |
| Net loss available to common stockholders | | |
| Basic and diluted | \$ (0.41) | \$ (2.02) |

For the fiscal year ended September 30, 2009 and September 30, 2008, 6,811,650 and 6,379,000 shares, respectively, attributable to the outstanding Series A Preferred Stock and convertible notes were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

Stock-Based Compensation

Effective October 1, 2005, the Company adopted professional standards in accounting for "Share Based Payments." Professional standards address all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SBP awards will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period. During fiscal years 2009 and 2008, the Company granted 90,000 and 2,255,000 stock options, respectively, with a fair value of approximately \$56,100 and \$2,059,000, respectively. A charge of \$878,000 and \$826,000 was recorded in fiscal years 2009 and 2008, respectively, relating to the amortization of the fair value associated with these grants.

As a result of the merger with vFinance, the Company issued 2,880,640 stock options in exchange for the outstanding vFinance stock options, and recorded a charge of \$429,000 and \$171,000 in fiscal years 2009 and 2008, respectively, relating to the amortization of the fair value associated with these options.

In fiscal year 2007, the Company granted 50,000 shares of restricted stock with a fair value of \$111,000. The fair value of the grant will be charged to the statement of operations over the four-year vesting period. During the fiscal years ended September 30, 2009 and 2008 the Company recognized a charge of \$28,000, for both years respectively, for the amortization of this grant.

The Black-Scholes option valuation model was used to estimate the fair value of the options granted during the fiscal years ended September 30, 2009 and 2008. 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. In the Company's opinion, this valuation model does not necessarily provide a reliable single measure of the fair value of its employee stock options. The principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

| | Years Ended | |
|-------------------------|--------------------------|--------------------------|
| | September 30, 2009 | September 30, 2008 |
| Assumptions: | | |
| Risk-free interest rate | 2.06% - 2.38% | 1.47% - 2.19% |
| Expected life, in years | 5.0 | 3.0 |
| Expected volatility | 30% - 87% | 78% - 82% |

As of September 30, 2009, there was \$1,000,000 of total unrecognized deferred compensation costs related to share-based compensation arrangements. The Company has experienced a historic forfeiture rate of approximately 38% on previously granted stock options and expects that future forfeitures will be consistent with this experience.

A summary of the status of the Company's non-vested shares as of September 30, 2009, and changes during the fiscal year then ended is presented below:

| Nonvested Shares | Shares | Weighted Average Grant Date Fair Value |
|---------------------------------|--------------|--|
| Nonvested at September 30, 2008 | 3,828,774 | \$0.92 |
| Granted | 50,000 | \$0.64 |
| Vested | (1,146,856) | \$0.56 |
| Expired | (815,177) | \$0.90 |
| Nonvested at September 30, 2009 | 1,916,741 | \$0.61 |

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 counterparty. 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 financial condition, based on the particular facts and circumstances.

The Company maintains cash with major financial institutions. All interest bearing accounts are insured up to \$250,000. On October 14, 2008 the FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until June 30, 2010. As a result of this coverage 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 its registered representatives. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual registered representative. The allowance for doubtful accounts reflects the amount of loss that can be reasonably estimated by management, and is included in other expenses in the accompanying consolidated statements of operations.

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 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.

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 fair value as determined in good faith by management.

Other Assets

Other assets consist primarily of pre-paid expenses and lease deposits.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. SFAS No. 5, 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.

Recently Issued Accounting Standards

The new professional standard issued in May 2009 accounting for "Subsequent Events" is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the issuance of

financial statements. Specifically, the standard sets forth: 1) the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances that an entity should recognize events or transactions that occur after the balance sheet date, and 3) the disclosures that an entity should make about events or transactions that occur after the balance sheet date.

F-11

The new professional standard using Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles was issued in June 2009. It sets forth that the Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the professionals to be applied to nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also source for authoritative GAAP for SEC registrants. When the statement is effective, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. As of September 30, 2009, the Company has adopted this policy.

NOTE 3. CLEARING AGREEMENTS

In April 2005, National Securities entered into a clearing agreement with NFS that became effective in June 2005. In the first quarter of fiscal year 2007, NFS paid National Securities a \$750,000 general business credit that is being amortized over an eight year period ending November 2014, corresponding with the expiration date of the clearing agreement. In the second quarter of fiscal year 2007, NFS provided National Securities a \$250,000 clearing fee waiver that was amortized over a two year period ended December 2008, corresponding with the time period that certain performance standards were to be achieved. The clearing agreement includes a termination fee if National Securities terminates the agreement without cause. The Broker Dealer Subsidiaries currently have clearing agreements with NFS, Penson, Legent, Fortis and Rosenthal. The Company believes that the overall effect of its clearing relationships has been beneficial to the Company's cost structure, liquidity and capital resources.

NOTE 4. BROKER-DEALERS AND CLEARING ORGANIZATIONS RECEIVABLES AND PAYABLES

At September 30, 2009 and 2008, the receivables of \$4,910,000 and \$3,691,000 respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions. At September 30, 2009 and 2008, the amounts payable to broker-dealers and clearing organizations of \$299,000 and \$730,000 respectively, represent amounts owed to clearing firms for fees on unsettled transactions and payables to other broker dealers associated with tri-party clearing agreements.

NOTE 5. OTHER RECEIVABLES

An analysis of other receivables and the allowance for uncollectible accounts on such receivables, for the fiscal years ended September 30, 2008 and 2009 is as follows:

| | Other Receivables | Allowance | Net Receivables |
|-----------------------------|----------------------|--------------|--------------------|
| Balance, September 30, 2007 | \$1,251,000 | \$(467,000) | \$784,000 |
| Additions | 527,000 | - | - |
| Collections | (568,000) | - | - |
| Provision | - | (163,000) | - |
| Balance, September 30, 2008 | 1,210,000 | (630,000) | 580,000 |
| Additions | 3,693,000 | - | - |
| Collections | (3,539,000) | - | - |
| Provision | (630,000) | 228,000 | - |
| Balance, September 30, 2009 | \$734,000 | \$(402,000) | \$332,000 |

NOTE 6. ADVANCES TO REGISTERED REPRESENTATIVES

An analysis of advances to registered representatives for the fiscal years ended September 30, 2008 and 2009 is as follows:

| | |
|---------------------------------------|--------------|
| Balance, September 30, 2007 | \$ 4,010,000 |
| Advances | 1,784,000 |
| Amortization or repayment of advances | (1,331,000) |
| Balance, September 30, 2008 | 4,463,000 |
| Advances | 853,000 |
| Amortization or repayment of advances | (2,436,000) |
| Balance, September 30, 2009 | \$ 2,880,000 |

The unamortized advances outstanding at September 30, 2009 and 2008 attributable to registered representatives who ended their affiliation with National Securities prior to the fulfillment of their obligation were \$0 and \$84,000 respectively.

NOTE 7. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED, AT MARKET – MARKETABLE

The following table shows the quoted market values of securities owned by the Company as of September 30, 2009 and 2008, respectively:

| | Securities owned | |
|--|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Corporate stocks | \$86,000 | \$454,000 |
| Corporate bonds | 3,000 | 6,000 |
| Government obligations | 542,000 | 516,000 |
| Restricted securities – non marketable | 60,000 | 48,000 |
| | \$691,000 | \$1,024,000 |

The following table shows the quoted market values of securities sold, but not yet purchased by the Company as of September 30, 2009 and 2008 respectively:

| | Securities sold, but not yet purchased | |
|------------------------|---|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Corporate stocks | \$4,000 | \$9,000 |
| Corporate bonds | - | 10,000 |
| Government obligations | - | 44,000 |
| | \$4,000 | \$63,000 |

Securities sold, but not yet purchased commit the Company to deliver specified securities at predetermined prices. The transactions may result in market risk since, to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected in the consolidated statements of financial condition.

Securities owned, non-marketable, which consist of restricted common stock that is not readily traded and warrants to purchase common stock, totaled \$60,000 and \$48,000 as of September 30, 2009 and 2008, respectively.

F-13

Fair Value Measurements

As of September 30, 2009

| Securities owned at fair value | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|------------|-----------|---------|------------|
| Corporate stocks | \$ 86,000 | \$ - | \$ - | \$ 86,000 |
| Corporate bonds | 3,000 | - | - | 3,000 |
| Government obligations | 542,000 | - | - | 542,000 |
| Restricted stock | - | 60,000 | - | 60,000 |
| | \$ 631,000 | \$ 60,000 | \$ - | \$ 691,000 |

| Securities sold, but not yet purchased at fair value | Level 1 | Level 2 | Level 3 | Total |
|--|----------|---------|---------|----------|
| Corporate stocks | \$ 4,000 | \$ - | \$ - | \$ 4,000 |
| Corporate bonds | - | - | - | - |
| Government obligations | - | - | - | - |
| | \$ 4,000 | \$ - | \$ - | \$ 4,000 |

As of September 30, 2008

| Securities owned at fair value | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|------------|-----------|---------|--------------|
| Corporate stocks | \$ 454,000 | \$ - | \$ - | \$ 454,000 |
| Corporate bonds | 6,000 | - | - | 6,000 |
| Government obligations | 516,000 | - | - | 516,000 |
| Restricted stock | - | 48,000 | - | 48,000 |
| | \$ 976,000 | \$ 48,000 | \$ - | \$ 1,024,000 |

| Securities sold, but not yet purchased at fair value | Level 1 | Level 2 | Level 3 | Total |
|--|-----------|---------|---------|-----------|
| Corporate stocks | \$ 9,000 | \$ - | \$ - | \$ 9,000 |
| Corporate bonds | 10,000 | - | - | 10,000 |
| Government obligations | 44,000 | - | - | 44,000 |
| | \$ 63,000 | \$ - | \$ - | \$ 63,000 |

NOTE 8. FIXED ASSETS

Fixed assets as of September 30, 2009 and 2008, respectively, consist of the following:

| | September 30, 2009 | September 30, 2008 | Estimated Useful Lives |
|--|-----------------------|-----------------------|---------------------------|
|--|-----------------------|-----------------------|---------------------------|

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

| | | | |
|---|---------------|--------------|---|
| Equipment | \$ 2,294,000. | \$ 2,045,000 | 5 years |
| Furniture and fixtures | 341,000 | 311,000 | 5 years |
| | | | Lesser of useful life or term of lease |
| Leasehold improvements | 576,000 | 544,000 | |
| Capital Leases (Primarily composed of Computer Equipment) | 1,940,000 | 1,481,000 | 5 years |
| | 5,151,000 | 4,381,000 | |
| Less accumulated depreciation | (3,988,000) | (3,138,000) | |
| Fixed assets - net | \$ 1,163,000 | \$ 1,243,000 | |

F-14

Depreciation and amortization expense for the years ended September 30, 2009 and 2008 was \$1,336,000 and \$1,140,000 respectively.

NOTE 9. ACQUISITIONS

Pursuant to the Merger Agreement, upon the closing of the Merger which occurred at 12:01 a.m. July 1, 2008 (the "Effective Date"), each share of vFinance common stock outstanding immediately prior to the closing of the Merger were automatically converted into the right to receive 0.14 shares of our common stock, rounded up to the nearest whole share.

Each option or warrant to purchase shares of vFinance common stock outstanding upon the Effective Date were converted into options or warrants, as the case may be, to acquire the number of shares of our common stock determined by multiplying (i) the number of shares of vFinance common stock underlying each outstanding stock option or warrant immediately prior to the effective time of the Merger by (ii) 0.14, at a price per share of our common stock equal to the exercise price per share of each stock option or warrant otherwise purchasable pursuant to the stock option or warrant divided by 0.14.

On the Effective Date, our board of directors consisted of Mark Goldwasser (Chairman of the Board), Leonard J. Sokolow (Vice Chairman of the Board), Christopher C. Dewey (Vice Chairman of the Board), Marshall S. Geller, Robert W. Lautz, Jr., Charles R. Modica and Jorge A. Ortega. Messrs. Geller, Lautz, Modica and Ortega are independent directors.

Pursuant to the Merger Agreement, Mr. Goldwasser, our Chairman of the board of directors, Mr. Dewey, a Vice Chairman of our board of directors, and Mr. Sokolow, the Chairman and Chief Executive Officer of vFinance (and now a Vice Chairman of our board of directors and our President), entered into an agreement (the "Director Voting Agreement") on the Effective Date to vote their shares of our common stock for the election of each other and up to three designees of Mr. Goldwasser and up to three designees of Mr. Sokolow until the earlier to occur of: (i) the Company's merger, consolidation or reorganization whereby the holders of our voting stock own less than 50% of the voting power of the Company after such transaction, (ii) by mutual consent of the parties thereto, (iii) the date that Messrs. Goldwasser, Sokolow and Dewey own in the aggregate less than one percent of our outstanding voting securities, (iv) upon the fifth anniversary of the Director Voting Agreement or (v) upon listing of our common stock on AMEX, the NASDAQ Capital Market or the NASDAQ Global Market.

On the Effective Date, Mr. Sokolow's employment as Chairman and Chief Executive Officer of vFinance and his employment agreement with vFinance dated November 16, 2004, as amended, was terminated and vFinance's principal office was relocated to New York City, New York. Accordingly, pursuant to the terms of Mr. Sokolow's former employment agreement with vFinance, Mr. Sokolow received a lump sum cash payment of \$1,150,000 as of the Effective Date. On the Effective Date, vFinance entered into an employment termination agreement ("Termination Agreement") with Mr. Sokolow.

The following table summarizes the Company's computation in determining the intangible asset acquired in the merger:

| | |
|------------------------------------|---------------|
| Purchase price | \$ 17,598,000 |
| Fair value of liabilities assumed | 6,506,000 |
| | 24,104,000 |
| Less fair value of assets acquired | 7,316,000 |
| Intangible assets acquired | \$ 16,788,000 |

The Company attributed the entire intangible asset to customer lists which will be amortized over a five year life (See Note 10).

F-15

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

The following table represents the operational performance as if the two entities were merged as of October 1, 2007 and operating as one company for an entire fiscal year:

For the Fiscal Year Ended September 30, 2008 (unaudited)

| | National | vFinance | Proforma Adjustments | Total |
|--|-------------------|-------------------|-------------------------|--------------------|
| REVENUES | | | | |
| Commissions | \$ 44,471,000 | \$ 26,109,000 | \$ - | \$ 70,580,000 |
| Net dealer inventory gains | 13,259,000 | 12,330,000 | - | 25,589,000 |
| Investment banking | 1,718,000 | 4,660,000 | - | 6,378,000 |
| Total commission and fee revenues | 59,448,000 | 43,099,000 | - | 102,547,000 |
| Interest and dividends | 3,722,000 | 568,000 | - | 4,290,000 |
| Transfer fees and clearing services | 4,474,000 | 4,727,000 | - | 9,201,000 |
| Other | 3,738,000 | 1,313,000 | - | 5,051,000 |
| TOTAL REVENUES | 71,382,000 | 49,707,000 | - | 121,089,000 |
| EXPENSES | | | | |
| Commissions and fees | 57,164,000 | 35,542,000 | - | 92,706,000 |
| Employee compensation and related expenses | 8,691,000 | 6,351,000 | - | 15,042,000 |
| Clearing fees | 2,297,000 | 2,811,000 | - | 5,108,000 |
| Communications | 1,176,000 | 1,820,000 | - | 2,996,000 |
| Occupancy and equipment costs | 3,294,000 | 1,972,000 | - | 5,266,000 |
| Professional fees | 2,533,000 | 1,672,000 | - | 4,205,000 |
| Interest | 662,000 | 86,000 | - | 748,000 |
| Taxes, licenses, registration | 436,000 | 352,000 | - | 788,000 |
| Other administrative expenses | 1,915,000 | 4,564,000 | - | 6,479,000 |
| | 78,168,000 | 55,170,000 | - | 133,338,000 |
| Net loss | (6,786,000) | (5,463,000) | - | (12,249,000) |
| Preferred stock dividends | (338,000) | - | - | (338,000) |
| Net loss attributable to common stockholders | \$ (7,124,000) | \$ (5,463,000) | \$ - | \$ (12,587,000) |
| LOSS PER COMMON SHARE | | | | |
| Basic: | | | | |
| Net loss attributable to common stockholders | \$ (0.67) | | | \$ (1.19) |
| Diluted: | | | | |
| Net loss attributable to common stockholders | \$ (0.67) | | | \$ (1.19) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 10,579,778 | | | 10,579,778 |
| Diluted | 10,579,778 | | | 10,579,778 |

The impairment of the intangible asset of \$12,999,000 has been excluded from the above Pro Forma information. If it had been included our net loss would have been \$25,586,000 and our loss per basic and diluted would have been (\$2.42).

The following table shows the actual calculation of tangible assets acquired and the total percentage of ownership in the vFinance Inc.

| | June 30, 2008 |
|--|---------------------|
| Total tangible assets acquired | |
| Cash | \$ 4,426,000 |
| Deposits with clearing organizations | 991,000 |
| Other receivables, net of allowance for non-collectable | 135,000 |
| Advances to registered representatives | 8,000 |
| Securities owned | |
| Marketable, at market value | 75,000 |
| Not readily marketable, at estimated market value | 56,000 |
| Fixed assets, net of accumulated depreciation | 768,000 |
| Other assets | 857,000 |
| Total tangible assets | \$ 7,316,000 |
| Total liabilities acquired | |
| Payable to Broker-Dealers and Clearing Organizations | \$ 239,000 |
| Securities sold, but not yet purchased, at market | 1,000 |
| Accounts payable, accrued expenses and other liabilities | 5,785,000 |
| Capital lease obligations | 481,000 |
| Total liabilities | \$ 6,506,000 |
| Net tangible assets acquired | \$ 810,000 |
| % Acquired | 100% |

NOTE 10. INTANGIBLE ASSETS

The markets in which the Company operates have recently been adversely affected by significant declines in the volume of securities transactions and in significant fluctuations in market liquidity together with existing and anticipated unfavorable financial and economic conditions. Since late September 2008, the following events have occurred:

- Lehman Brothers filed for bankruptcy protection;
- American International Group receives a loan of \$85 billion from the Federal Reserve;
- Washington Mutual's banking assets were sold to JP Morgan;
- The Emergency Economic Stabilization Act which created a \$700 billion Troubled Assets Relief Program was signed into law ("TARP");
- Central banks from large industrialized countries coordinate their efforts to aid the world economy;
- The TARP has been used for different purposes than originally intended to accommodate shifting currents in the US economy
-

The Federal Reserve Bank has set two new precedents by first, lowering the Federal Funds Rate to its lowest level ever of between 0% and .25% and second, modifying the structure of this instrument to one of a variable nature.

- The major US stock indexes have declined between 25.1% and 43.1% since July 1, 2008.

The aforementioned economic events have caused a significant decline in the assets under management of our customers, including the customers of vFinance. Additionally, the Company believes that such economic events triggered a large number of those customers to reconsider several aspects of their investment philosophy, strategy, and execution. Accordingly, we believe that this may result in lower revenues and net cash flows than we initially anticipated at the time of the acquisition of vFinance. This leads the Company to believe that the carrying amount of the intangible assets resulting from this acquisition may not be recovered.

During December 2008, the Company estimates the future cash flows expected to result from the use of the intangible assets resulting from merger with vFinance. The Company determined that such future cash flows did not exceed the carrying value of the intangible asset as of September 30, 2008. The Company believes that the intangible assets, which consist substantially of customer relationships, will be held and used.

To determine the fair value of the intangible assets, the Company used the guidance provided by professional standards defining Fair Value Measurements. These professional standards provide a fair value hierarchy which gives priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. There is no active market for assets identical to the Company's acquired customer relationships nor has the Company been able to identify, as defined. Additionally, the Company was unable to identify the following Level 2 inputs: 1) quoted prices for similar assets in active markets, 2) quoted prices for similar or identical assets in markets that are not active, or 3) inputs other than quoted prices that are observable for the asset. Accordingly, the Company used mostly unobservable inputs, consisting of estimated future net cash flows generated specifically from the acquired customer relationships. However, the Company did use certain Level 1 and 2 inputs to substantiate certain assumptions that helped determine the discount rate it used in deriving the fair value of the intangible assets.

Based on this method, the Company determined that the adjusted carrying basis of its intangible assets resulting from its merger with vFinance amounts to \$2,950,000 at September 30, 2008. The difference between the adjusted carrying basis and its unamortized carrying basis amounts to \$12,999,000 and has been recorded as an operating expense of the Company in the accompanying financial statements. The remaining intangible asset will be amortized over the balance of the assets original life for 4.75 years. Amortization of the Company's intangible asset for the fiscal years ending September 30, 2009 and 2008 was \$621,000 and \$839,000, respectively.

The following table demonstrates the amortization management expects to be taken in future years:

| Fiscal Year Ending | |
|--------------------|--------------|
| 2010 | 621,000 |
| 2011 | 621,000 |
| 2012 | 621,000 |
| 2013 | 466,000 |
| | \$ 2,329,000 |

NOTE 11. OTHER ASSETS

Other assets as of September 30, 2009 and 2008 respectively, consist of the following:

| | September 30, 2009 | September 30, 2008 |
|------------------------------------|-----------------------|-----------------------|
| Pre-paid expenses | \$ 659,000 | \$ 728,000 |
| Deposits | 184,000 | 352,000 |
| Investments in unaffiliated entity | 162,000 | 162,000 |
| Deferred financing costs | 114,000 | 163,000 |
| Other | 13,000 | 24,000 |
| Total | \$ 1,132,000 | \$ 1,429,000 |

NOTE 12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Accounts payable, accrued expenses and other liabilities, as a part of current liabilities, as of September 30, 2009 and 2008 respectively, consist of the following:

| | September 30, 2009 | September 30, 2008 |
|------------------------------------|-----------------------|-----------------------|
| Commissions payable | \$ 7,745,000 | \$ 6,537,000 |
| Deferred clearing fee credits | 94,000 | 94,000 |
| Telecommunications vendors payable | 82,000 | 209,000 |
| Legal payable | 663,000 | 646,000 |
| Deferred rent payable | 33,000 | 33,000 |
| Accrued compensation | 757,000 | 567,000 |
| Capital lease liability | 703,000 | 613,000 |
| Other vendors | 4,085,000 | 3,025,000 |
| Total | \$ 14,162,000 | \$ 11,724,000 |

NOTE 13. CONVERTIBLE NOTES PAYABLE

On March 31, 2008, the Company completed a financing transaction under which an investor made an investment in the Company by purchasing a convertible promissory note in the principal amount of \$3.0 million, with a warrant to purchase 375,000 shares of common stock at an exercise price of \$2.50 per share. The promissory note matures in March 2012, is convertible into common stock at a price of \$2.00 per share and has a stated interest rate of 10% per annum. Using professional standards, the relative fair value of the warrant was calculated using the Black-Scholes Option Valuation Model. The Company also recorded an additional debt discount for the beneficial conversion feature of the instrument. These amounts, totaling approximately \$791,000, have been recorded as a debt discount that will be charged to interest expense over the life of the promissory note.

On June 30, 2008, the Company completed a financing transaction under which the same investor made an additional investment in the Company by purchasing a convertible promissory note in the principal amount of \$3.0 million, with a warrant to purchase 468,750 shares of common stock at an exercise price of \$2.00 per share. The promissory note matures in June 2012, is convertible into common stock at a price of \$1.60 per share and has a stated interest rate of 10% per annum. Under professional standards, the relative fair value of the warrant was calculated using the Black-Scholes Option Valuation Model. The Company also recorded an additional debt discount for the beneficial conversion feature of the instrument. These amounts, totaling approximately \$789,000, have been recorded as a debt discount that will be charged to interest expense over the life of the promissory note.

The following table summarizes convertible notes payable at September 30, 2009.

| | September 30, 2009 | September 30, 2008 |
|-------------------------------|-----------------------|-----------------------|
| 10% convertible notes payable | \$6,000,000 | \$6,000,000 |
| Less: Debt discount | (1,036,000) | (1,431,000) |
| | \$4,964,000 | \$4,569,000 |

The Company incurred interest expense related to its convertible notes of \$600,000 and \$391,000 for the fiscal years ended September 30, 2009 and 2008, respectively.

NOTE 14. NOTES PAYABLE – RELATED PARTY

In February 2007, the Company completed a financing transaction under which certain investors purchased 10% promissory notes in the principal amount of \$1.0 million, with warrants to purchase an aggregate of 250,000 shares of common stock at an exercise price of \$1.40 per share. The promissory notes matured in February 2009, and had a stated interest rate of 10% per annum. The Company obtained forbearance agreements from the lenders and as a result, re-priced some of the warrants down to an exercise price of \$0.75 per share. The Company recalculated the fair value of the warrants and took an incremental charge of approximately \$46,000 recorded as interest expense, in accordance with professional standards. During 2009 the Company repaid \$500,000 of the notes payable and the other \$500,000 has been extended to a new maturity of May 2010. The Company has fully amortized the debt discount associated with these notes and an expense of \$41,000 was charged to interest expense in 2009. Such amortization had been included in “Interest” in previous years, in the accompanying consolidated financial statements.

The following table summarizes notes payable at September 30, 2009 and 2008, respectively:

| | September 30, 2009 | September 30, 2008 |
|------------------------------|-----------------------|-----------------------|
| 10% promissory notes payable | \$ 500,000 | \$ 1,000,000 |
| Less: Debt discount | - | (41,000) |
| | \$ 500,000 | \$ 959,000 |

The note outstanding on September 30, 2009 matures in fiscal year 2010. This note has is made by Christopher Dewey, who serves as a member of our Board of Directors. The Company incurred interest expense related to its notes of \$73,000 and \$208,000 for the fiscal years ended September 30, 2009 and 2008, respectively.

NOTE 15. SECURED DEMAND NOTE / SUBORDINATED BORROWINGS

Subordinated borrowings represent a secured demand note that was entered into by National Securities, a registered broker-dealer. The secured demand note was entered into in accordance with the form prescribed by the FINRA, and it is accounted for in accordance with broker-dealer accounting SEC rule 15c3-1d. Accordingly, our balance sheet includes both an asset (“Secured demand note”) and the corresponding liability (“Subordinated borrowings”) in an identical amount. The secured demand note is available to compute net capital under SEC rule 15c3-1. The borrowings are subordinated to the claims of present and future creditors of the Company and cannot be repaid where such repayment will cause the Company to fail to meet its minimum net capital requirements in accordance with SEC rule 15c3-1.

National Securities entered into a secured demand note collateral agreement with an employee of National Securities and a former Director of the Company, to borrow securities that can be used by the Company for collateral

agreements. These securities have been pledged through an unrelated broker-dealer, and have a borrowing value totaling \$500,000. This note bears interest at 5% per annum with interest paid monthly. In fiscal year 2009, upon the maturity of the aforementioned note, the lender opted to not renew the note and as such, the note is presently in "Suspended Repayment" status, as defined in the original note. Certain of the securities, totaling \$168,000, have been pledged as collateral for security deposits for office leases under two letters of credit. No amounts have been drawn on either of these letters of credit. The holder also entered into a warrant agreement to purchase 150,000 shares of common stock at a price of \$1.25 per share, with an expiration date of July 31, 2010.

F-20

In June 2009, National Securities was approved by the FINRA to receive a Subordinated loan from Legent for \$100,000. This loan was granted subsequent to National Securities signing a clearing agreement with Legent, to clear a portion of the business. This loan is forgivable after one year and National Securities bringing over a certain number of assets to the Legent clearing platform.

In July 2009, National Securities was approved by the FINRA to receive an additional Subordinated loan from Legent for \$250,000, also bearing interest at the rate of 4.5% payable monthly. This loan was granted subsequent to National Securities signing a clearing agreement with Legent, to clear a portion of the business. This loan is scheduled to begin principal repayment at a minimum of \$10,000 per month or \$10 per transaction whichever is greater, starting July 31, 2010. Some or all of this repayment may be funded by transactional credits depending on the amount of business conducted through Legent on a monthly basis.

NOTE 16. INCOME TAXES

The income tax provision (benefit) consists of:

| | Years Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Federal income tax provision (benefit) | \$ - | \$ - |
| State income tax provision (benefit) | - | - |
| | \$ - | \$ - |

The primary difference between income tax expense at the federal statutory rate and actual tax expense is due to the utilization of net operating loss carryovers. The Company did not record a provision for income taxes due to the utilization of net operating losses.

The income tax provision (benefit) related to income (loss) from continuing operations before income taxes and extraordinary items vary from the federal statutory rate as follows:

| | Years Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Statutory federal rate | 35.0% | 35.0% |
| State income taxes net of federal income tax benefit | 5.2 | 5.2 |
| Permanent differences for tax purposes | (10.4) | (26.5) |
| Change in valuation allowance | (29.8) | (13.7) |
| | 0.0% | 0.0% |

Significant components of the Company's deferred tax assets that are included in other assets in the accompanying financial statements are as follows:

| | September 30, 2009 | September 30, 2008 |
|--|-----------------------|-----------------------|
| Deferred tax assets: | | |
| Net operating loss carry-forwards | \$ 12,585,000 | \$ 13,000,000 |
| Reserves for uncollectible receivables | 162,000 | 187,000 |
| Accrued but unpaid bonuses | 190,000 | 189,000 |
| Other temporary differences | 88,000 | 61,000 |
| Total deferred tax assets | 13,025,000 | 13,437,000 |
| Valuation allowance | (13,025,000) | (13,437,000) |
| Net deferred tax asset | \$ - | \$ - |

At September 30, 2009, the Company had available net operating loss carryovers of approximately \$31.5 million that may be applied against future taxable income and expires at various dates through 2029, subject to certain limitations. The Company has a deferred tax asset arising substantially from the benefits of such net operating loss deduction and has recorded a valuation allowance for the full amount of this deferred tax asset since it is more likely than not that some or all of the deferred tax asset may not be realized. The valuation allowance for the deferred tax asset decreased by \$ 412,000 and increased \$9.4 million during the fiscal years ended September 30, 2009 and 2008 respectively. The net change in the valuation allowance is due principally to the net operating loss carryovers, reserve for uncollectible accounts and other temporary differences.

During the fiscal year ended September 30, 2009, the Company adjusted its deferred tax asset estimate relating to net operating loss carryovers from fiscal year ended September 30, 2008 to reflect actual tax losses per the Company's tax return as filed. This adjustment had the effect of reducing the deferred tax assets from net operating loss carry-forwards by approximately \$2,200,000 with a corresponding reduction to the valuation allowance account. This adjustment has no impact on the Company's assets, liabilities or net loss as of September 30, 2009.

The Company acquired vFinance, Inc. and subsidiaries during fiscal year ended September 30, 2008 and increased its consolidated tax net operating loss carry-forwards by approximately \$12 million from vFinance pre-acquisition net operating losses. However, pursuant to IRC Section 382, the amount of taxable income that can be offset by these pre-acquisition net operating losses of both the Company and vFinance, Inc is limited due to the ownership change that occurred during the year. The deferred tax asset derived from these tax loss carry-forwards have been included in consolidated deferred tax assets- net operating loss carry-forwards, and a full valuation allowance has been established since it is not more likely than not that such benefits will be recovered.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Leases

As of September 30, 2009, the Company leases office space and equipment in various states expiring at various dates through August 2015, and is committed under operating leases for future minimum lease payments as follows:

| Fiscal Year Ending | Rental Expense | Less, Sublease Income | Net |
|--------------------|----------------|--------------------------|--------------|
| 2010 | \$3,887,000 | \$72,000 | \$3,815,000 |
| 2011 | 3,712,000 | 72,000 | 3,640,000 |
| 2012 | 3,126,000 | 72,000 | 3,054,000 |
| 2013 | 2,319,000 | 72,000 | 2,247,000 |
| Thereafter | 1,492,000 | 66,000 | 1,426,000 |
| | \$14,536,000 | \$354,000 | \$14,182,000 |

The totals amount of rent payable under the leases is recognized on a straight line basis over the term of the leases. As of September 30, 2009 and September 30, 2008, the Company has recognized deferred rent payable of \$221,000 and \$313,000, respectively (See Note 12). Rental expense under all operating leases for the years ended September 30, 2009 and September 30, 2008 was \$3,266,000 and \$2,356,000 respectively. Sublease income under all operating subleases for the years ended September 30, 2009 and 2008 was approximately \$72,000 and \$65,000, respectively.

Litigation and Regulatory Matters

In July 2005, the Securities and Exchange Commission contacted vFinance regarding an investigation into Lexington Resources, Inc. On May 4, 2006 the Commission issued an Order Directing Investigation advising vFinance that the Division of Enforcement staff were investigating possible violations of Sections 5(a) and 5(c) of the Securities Act of 1933, Rule 10(b)5 of the Exchange Act, Section 17b of the Securities Act, Section 17(a) of the Exchange Act, Section 15(c)(1)(a) of the Exchange Act, Section 13(d) of the Exchange Act, and Section 16(a) of the Exchange Act from the period of November 2003 through May 4, 2006. From July 2005 through and including March 2007, multiple document and information requests and responses to those requests were exchanged between the SEC staff and vFinance. In total more than 5,000 pages of documents were produced to the SEC staff in both electronic and hard copy form. On January 3, 2008, the SEC issued an Order Instituting Administrative Proceedings against vFinance Investments, Inc., Richard Campanella and a former registered representative. The Order alleges that vFinance violated the federal securities laws by failing to preserve and produce customer correspondence of one of its registered representative. The SEC also alleges that the registered representative repeatedly failed to produce records and deliberately deleted data from his hard drive relating to a matter under investigation by the SEC. The SEC separately alleges that Campanella failed to respond promptly to the SEC's document requests, as required under Section 17(a) of the Exchange Act, and failed to address the registered representative's non-compliance with the firm document retention policies. The alleged violations were isolated occurrences related to this registered representative and were limited to the Flemington, New Jersey branch office. The registered representative terminated his employment with vFinance on August 4, 2006, and has not been associated with vFinance since that date. On November 7, 2008, a ruling in this matter was issued which found that vFinance willfully violated Section 17(a) of the Exchange Act and Rules 17a-4(b)(4) and 17a-4(j) thereunder, and that Campanella aided and abetted and caused vFinance's violations. As a consequence, a Cease and Desist Order was issued against vFinance with a civil monetary penalty against vFinance in the amount of \$100,000. On November 17, 2008 vFinance filed a Motion to Correct Manifest Errors of Fact in the Initial Decision in an effort to correct possible errors in the ruling's findings of fact. The Judge denied the motion. The Company sought review of the Judge's decision and, following briefing, will present oral argument in early 2010.

On March 4, 2008, vFinance received a customer arbitration (FINRA Case No.08-00472) from Donald and Patricia Halfmann, alleging that Jeff Lafferty, a former registered representative of vFinance, misappropriated approximately \$110,000 of the Halfmanns' funds via check alteration, and that vFinance ought to be liable for an additional \$150,000 for other dishonest and fraudulent acts committed after he left vFinance. On August 6, 2009 the arbitrators' ruled that vFinance Investments must pay for losses, interest, attorney's costs and punitive damages totaling approximately \$805,000. The firm made a claim against its fidelity bond carrier, and received approximately \$59,000 for the claim. The firm and has determined that there was no basis to seek to have the entire arbitration award, or any part of that award, vacated. In December, vFinance finished paying the entire award to the Halfmann's in accordance with the terms agreed upon between the parties.

In November 2009, James and Cheryl Merrill, on behalf of themselves and on behalf of all other similarly situated investors, filed a class action in the Unites States District Court, Central District of California, Southern Division, against National and National Securities in connection with the purchase and sale of promissory notes issued on or after September 18, 2006 by one or more of Medical Capital Holdings, Inc.'s special purpose corporations, including Medical Provider Financial Corporation III, Medical Provider Financial Corporation IV ("Medical Capital IV"), Medical Provider Funding Corporation V ("Medical Capital V") and Medical Provider Funding Corporation VI V ("Medical Capital VI"). The class action has not yet been certified or decertified. The class members assert claims against NSC for violations of Section 12(a)(1) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. § 771, and for violations of 12(a)(2) of the Securities Act, 15 U.S.C. § 771. The class members further assert claims against NHC under Section 15 of the Securities Act, 15 U.S.C. § 770. The class members seek compensatory damages, rescission or a recessionary measure of damages, pre-judgment and post-judgment interest, costs and expenses, including attorneys' fees, all in undisclosed amounts.

In December 2009, Amos Norman (“Norman”), individually and as trustee of a trust, commenced an arbitration against National Securities and Brian Folland (“Folland”), a securities broker registered with NSC, before FINRA Dispute Resolution in connection with investments totaling \$815,000. Claimant alleges that he invested a total of \$590,000 in Medical Capital IV, Medical Capital V and Medical Capital VI, among other investments, although Norman concedes that \$60,000 of the amount invested in Medical Capital IV was made prior to Folland’s registration with National Securities, and further, that National Securities should not be liable for such investment. Claimant also alleges that he invested \$100,000 in an entity created by Provident Royalties (discussed further below). Claimant asserts claims against National Securities for violation of federal securities laws, violation of California securities laws, violation of California’s elder abuse laws, violation of California’s unfair, unlawful and fraudulent business practices acts, breach of contract, common law fraud, breach of fiduciary duty, negligence and gross negligence.

In total, Claimant seeks compensatory damages of \$630,000 from National Securities (\$530,000 for the Medical Capital investments and \$100,000 for the Provident Royalties investment), as well as benefit of the bargain damages, lost opportunity costs, model portfolio damages, prejudgment interest, costs, reasonable attorneys’ fees and punitive damages, all in undisclosed amounts.

In October 2009, NSC received demands from counsel representing two other customers who allegedly invested an aggregate of \$200,000 in Medical Capital V and Medical Capital VI. Those matters have not proceeded to litigation and the Company has not yet conducted discovery into the allegations or potential defenses, although it appears that those customers may also be contemplated members of the above-discussed class action. The Company estimates, to the extent that it can, that based on prior experience, its liability from these demands, should they proceed to litigation, may be substantially less than the amount of all damages and other relief sought. These demands arise in the normal course of business.

The Company has not yet conducted discovery into the allegations or potential defenses in connection with any of these actions or claims and it appears that Norman and the other claimants set forth above may be contemplated member of the above-discussed class action with respect to his investments in Medical Capital IV, Medical Capital V and Medical Capital VI, and with respect to Norman, the below-discussed class action involving Provident Royalties. The Company intends to defend itself vigorously in this action and believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

In December 2009, plaintiffs Robert Adams, Joseph Billitteri, Karen L. Bopp, IRA, Bussell Living Trust DTD 12/05/96, John Gilgallon, Scott Jessen, Sharon Kreindel Revocable Trust DTD 02/09/2005, Mary Merline, James Merrill, Don Ribacchi and Lewis Wilson, each on his, her or its own behalf and on behalf of all similarly situated investors, filed a Consolidated Amended Class Action Complaint in the United States District Court, Northern District of Texas, Dallas Division, against a number of broker-dealers, including NSC, and against a number such broker-dealers’ parent companies, including NHC, in connection with a series of offerings for oil and gas investments. Each member of the class asserts claims against NSC for breach of fiduciary duty and for violations of § 33(A)(2) of the Texas Securities Act. Each member seeks to hold NHC liable for NSC’s conduct as a control person under § 33(F)(1) of the Texas Securities Act. The class members seek compensatory damages, rescission or a recessionary measure of damages, pre-judgment interest, costs and expenses, including attorneys’ fees, all in undisclosed amounts.

In December 2009, claimants Lorna Chen, Terry Darden, John Davis, Barbara Farace, David Kravetz, Janice Miyashiro and Vip Miyashiro commenced an arbitration against NSC before FINRA Dispute Resolution. Claimants assert claims against NSC for negligence, negligent misrepresentation and omission, breach of fiduciary duty, breach of contract, violation of New Jersey’s Uniform Securities Law, violation of the Texas Securities Act, violation of California Corporate Securities Laws, violation of the Securities Act of Washington

In total, Claimants seeks compensatory damages of \$525,000 from NSC in connection with the Provident Royalties investments, and Mr. Davis seeks compensatory damages of \$207,000 from NSC in connection with his Medical Capital investments. Claimants further seek rescission, prejudgment interest, punitive damages, costs pursuant to New Jersey's Uniform Securities Law, and costs and attorneys' fees pursuant to the Texas Securities Act and the Securities Act of Washington, all in undisclosed amounts.

F-24

The Company has not yet conducted discovery into the allegations or potential defenses related to the Provident claims and it appears that each of the claimants in the FINRA Dispute Resolution may be a contemplated member of the above-discussed class action involving Provident Royalties, and that Mr. Davis may also be a contemplated member of the above-discussed class action with respect to his investments in Medical Capital IV, Medical Capital V and Medical Capital VI. The Company intends to defend itself vigorously in this action and believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

In early 2009, Vincent Falco commenced a FINRA arbitration against National Securities and two of its employees. Claimant alleges that National Securities and the registered representatives purchased unsuitable securities, failed to follow instructions regarding the use of margin, made misrepresentations of material fact and/or omitted material facts in connection with the purchase of securities, managed the account negligently, breached their contract with Mr. Falco, breached fiduciaries duties owed to him, and violated FINRA Conduct Rules. Claimant further alleges that National Securities negligently supervised Mr. Alves and is vicariously liable for his conduct in tort, under a theory of respondeat superior. Finally, Claimant alleges violations of unidentified laws of the State of Florida. Claimant seeks compensatory damages from all respondents in the amount of \$3,000,000, punitive damages of \$9,000,000, plus disgorgement of fees, attorneys' fees, forum fees, costs and interest, all in undisclosed amounts.

National Securities timely filed a response to this claim and has begun but not yet completed discovery into the allegations and potential defenses. The Company intends to defend itself vigorously in this action, which is set for hearing in Florida on February 15-19, 2010. The Company believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

The Company's subsidiaries are defendants in various arbitrations and administrative proceedings, lawsuits and claims together alleging damages in excess of \$12,091,000. The Company estimates, to the extent that it can, that based on discussions with legal counsel and prior experience, its aggregate liability from these pending actions may be less than \$602,000 (exclusive of fees, costs and unspecified punitive damages related to certain claims and inclusive of expected insurance coverage). 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 September 30, 2009 and 2008, is \$203,000 and \$587,000 (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 \$829,000 and \$1,820,000 for the fiscal year 2009 and 2008, respectively.

NOTE 19. STOCKHOLDERS' EQUITY

Shares Authorized

The Company's authorized number of shares of common stock is 50,000,000, and its authorized number of shares of preferred stock is 200,000. The number of authorized shares of preferred stock designated as Series A is 50,000.

Common Stock – During the fiscal year ended September 30, 2008, upon the vote of its shareholders, the Company increased the authorized number of shares of its common stock to 50,000,000 shares from 30,000,000 shares.

During the fiscal year ended September 30, 2007, the Company granted 50,000 shares of restricted stock with a fair value of \$111,000. The fair value of the grant will be charged to the statement of operations over the four-year vesting period. During the fiscal years ended September 30, 2009 and 2008 the Company recognized a charge of

\$28,000, for each year respectively, for the amortization of this grant.

Series A Convertible Preferred Stock

Each Series A convertible preferred stock is convertible into 80 shares of common stock (\$1.25 per share of common). The holders are entitled to receive dividends on a quarterly basis at a rate of 9% per annum, per share. Such dividends are cumulative and accumulate whether or not declared by the Company's Board of Directors, but are payable only when and if declared by the Company's Board of Directors.

F-25

During the fiscal years ended September 30, 2009, 2007, 2006 and 2005, the Company's Board of Directors declared in-kind dividends in the aggregate of 5,407, 2,537, 1,996 and 2,143 shares of Series A preferred stock, in payment of approximately \$676,000, \$317,000, \$300,000 and \$322,000, respectively, for dividends accumulated through March 31 of each year. In March 2006, the Company's shareholders approved an amendment to decrease the conversion price of the Series A preferred stock to \$1.25 per share from \$1.50 per share. As of September 30, 2009 and 2008, the amount of accumulated dividends for the Company's 42,957 and 37,550 issued and outstanding shares of Series A preferred stock was approximately \$194,000 and \$506,000, respectively.

Stock Options

The Company's stock option plans provide for the granting of stock options to certain key employees, directors and investment executives. Generally, options outstanding under the Company's stock option plan are granted at prices equal to or above the market value of the stock on the date of grant, vest either immediately or ratably over up to five years, and expire five years subsequent to award.

In the fiscal year ended September 30, 2008, the Company issued options to purchase 255,000 shares of its common stock. The options vest over periods from six months to four years, have a 5-year life and are exercisable at prices from \$1.15 to \$2.10 per share. The fair value of the options was \$260,000, and \$130,000 was charged to operations in the fiscal year ended September 2008. On July 1, 2008, pursuant to the merger with vFinance, the Company issued options to purchase 2,000,000 shares of its common stock. The options vest over a 3-year period, have a 7-year life and are exercisable at a price of \$1.64 per share. The fair value of the options was \$1,800,000, and \$563,000 was charged to operations in the fiscal year ended September 2008.

Additionally, on July 1, 2008, pursuant to the merger with vFinance, the Company issued options to purchase approximately 2,880,640 shares of its common stock in exchange for the outstanding options of vFinance. The options vest over periods from 3 months to 29 months from the Merger date and have a weighted average life of 1.4 years. The options are exercisable at prices from \$1.10 to \$2.57 per share. The fair value of the options was approximately \$1,700,000 and \$171,000 was charged to operations in the fiscal year ended September 2008.

In March 2008, the Company's shareholders approved the 2008 stock option plan that reserved 5,000,000 shares of common stock for issuance of options granted under such plan.

In the fiscal year ended September 30, 2009, the Company issued options to purchase 90,000 shares of common stock with a fair value of \$56,000 and exercise prices ranging from \$0.64 to \$0.70 cents per share.

A summary of the status of the Company's stock options outstanding at September 30, 2009 is in the tables presented below.

| Range of Exercise Prices | Number Outstanding | Options Outstanding | | Options Exercisable | |
|--------------------------|--------------------|---|----------------------------------|---------------------|----------------------------------|
| | | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Prices | Number Exercisable | Weighted Average Exercise Prices |
| \$0.64-\$1.15 | 668,100 | 1.82 | \$1.05 | 533,575 | \$1.08 |
| \$1.214-\$1.50 | 2,090,940 | 1.51 | \$1.39 | 1,681,020 | \$1.37 |
| \$1.55-\$2.57 | 3,153,125 | 4.63 | \$1.76 | 1,780,829 | \$1.77 |
| | 5,912,165 | | | 3,995,424 | |

| | Outstanding | Weighted Average Price Per Share | Aggregate Intrinsic Value |
|-----------------------------|-------------|--|---------------------------------|
| Balance, September 30, 2007 | 2,007,000 | \$1.62 | \$ 2,359,000 |
| Granted | 2,255,000 | \$1.67 | |
| Issued in Merger | 2,880,640 | \$1.46 | |
| Exercised | (30,000) | \$0.57 | |
| Forfeitures | (225,000) | \$1.53 | |
| Balance, September 30, 2008 | 6,887,640 | \$1.58 | \$ - |
| Granted | 90,000 | \$0.67 | |
| Exercised | - | \$- | |
| Forfeitures | (1,065,475) | \$1.67 | |
| Balance, September 30, 2009 | 5,912,165 | \$1.55 | \$ 2,500 |

As of September 30, 2009, the aggregate intrinsic value of the Company's outstanding and exercisable options was \$2,500.

Warrants

In February 2007, as further discussed in Note 14, the Company completed a financing transaction that included five-year warrants to purchase 250,000 shares of the Company's common stock at \$1.40 per share. In September 2009, in exchange for forbearance of the amounts due under the terms of this note, 187,500 of these warrants were re-priced to an exercise price of \$0.75. The total incremental cost associated with the re-pricing of these warrants was approximately \$46,000.

In March 2008, as further discussed in Note 13, the Company completed a financing transaction that included five-year warrants to purchase 375,000 shares of the Company's common stock at \$2.50 per share. In June 2008, as further discussed in Note 13, the Company completed a financing transaction that included five-year warrants to purchase 468,750 shares of the Company's common stock at \$2.00 per share.

Additionally, on July 1, 2008, pursuant to the merger with vFinance, the Company issued warrants to purchase approximately 436,000 shares of its common stock in exchange for the outstanding warrants of vFinance. The warrants are fully vested, have an average life of 1.3 years, and are exercisable at prices from \$0.79 to \$16.07 per share.

During the year ended September 30, 2007 the warrant holders exercised 976,674 of their warrants and provided cash proceeds to the Company of \$1,310,000. No warrants were exercised during the years ended September 30, 2008 and 2009.

The following tables summarize information about warrants outstanding at September 30, 2009.

| | Shares | Weighted Average Exercise Price | Exercisable |
|-----------------------------------|-----------|---------------------------------------|-------------|
| Outstanding at September 30, 2007 | 750,000 | \$1.20 | 750,000 |
| Granted | 843,750 | \$2.22 | |
| Issued in Merger | 435,624 | \$1.35 | |
| Expired | (50,000) | \$1.25 | |
| Outstanding at September 30, 2008 | 1,979,374 | \$1.67 | 1,979,374 |
| Granted | 112,500 | \$0.75 | |

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-K

| | | | |
|-----------------------------------|-----------|----------|-----------|
| Exercised | 0 | \$0 | |
| Expired | (1,400) | \$16.071 | |
| Outstanding at September 30, 2009 | 2,090,474 | \$1.27 | 2,090,474 |

F-27

| Warrants Outstanding and Exercisable | | | |
|--------------------------------------|--------------------|---|----------------------------------|
| Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Prices |
| \$0.75 | 362,500 | 3.19 | \$0.75 |
| \$0.79 | 364,224 | .09 | \$0.79 |
| \$1.00 | 300,000 | 1.28 | \$1.00 |
| \$1.25 | 618,750 | 3.04 | \$1.25 |
| \$2.00 | 375,000 | 3.50 | \$2.00 |
| \$2.14 | 14,000 | 0.39 | \$2.14 |
| \$4.46 | 56,000 | 1.88 | \$4.46 |
| | 2,090,474 | | |

As of September 30, 2009, the aggregate intrinsic value of the Company's outstanding and exercisable warrants was \$0.

NOTE 20. NET CAPITAL REQUIREMENTS

National Securities, as a registered broker-dealer, is subject to the SEC's Uniform Net Capital Rule 15c3-1 that requires the maintenance of minimum net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of \$250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At September 30, 2009, the Company had net capital of approximately \$489,000 which exceeded its requirement by approximately \$239,000

In addition to the net capital requirements, each of vFinance Investments, Inc. and EquityStation are 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 September 30, 2009, vFinance Investments had net capital of approximately \$1,295,000 which was approximately \$295,000 in excess of its required net capital of \$1,000,000 and its percentage of aggregate indebtedness to net capital was 614%. At September 30, 2009, EquityStation had net capital of approximately \$186,000 which was approximately \$86,000 in excess of its required net capital of \$100,000 and its percentage of aggregate indebtedness to net capital was 297%. Each of the Broker Dealer subsidiaries qualifies under the exemptive provisions of Rule 15c3-3 under Section (k)(2)(ii) of the Rule, as none of them carry the accounts of their customers on their books nor perform custodial functions related to customer securities.

Advances, dividend payments and other equity withdrawals from its broker dealer subsidiaries are restricted by the regulations of the SEC, and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company.

NOTE 21. EMPLOYEE BENEFITS

National Securities has a defined 401(k) profit sharing plan (the "Plan") that covers substantially all of its employees. Under the terms of the Plan, employees can elect to defer up to 25% of eligible compensation, subject to certain limitations, by making voluntary contributions to the Plan. The Company's annual contributions are made at the discretion of the Board of Directors. During the fiscal years ended September 30, 2009 and 2008, the Company made no contributions to the Plan.

vFinance Inc. participates in a defined contribution savings plan maintained by an affiliate, vFinance Holdings, Inc., in which substantially all employees are eligible to participate. The plan allows for matching of up to 25% of an

employee's annual contribution however, there were no Company matches for the last three years.

F-28

NOTE 22. UNAUDITED QUARTERLY DATA

Selected Quarterly Financial Data (Dollars in thousands, except per share data)

| | December 31, 2007 | March 31, 2008 | June 30, 2008 | September 30, 2008 |
|--|----------------------|-------------------|---------------|-----------------------|
| Revenues | \$ 20,365 | \$ 16,284 | \$ 18,679 | \$ 26,815 |
| Net loss | \$ (1,167) | \$ (1,364) | \$ (909) | \$ (17,577) |
| Preferred stock dividends | (85) | (83) | (84) | (86) |
| Net loss attributable to common stockholders | \$ (1,252) | \$ (1,447) | \$ (993) | \$ (17,663) |
| Loss per common share - Basic | \$ (0.15) | \$ (0.17) | \$ (0.12) | \$ (1.08) |
| Loss per common share - Diluted | \$ (0.15) | \$ (0.17) | \$ (0.12) | \$ (1.08) |
| | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 |
| Revenues | \$ 27,852 | \$ 24,586 | \$ 33,530 | \$ 30,622 |
| Net loss | \$ (1,142) | \$ (1,927) | \$ (868) | \$ (2,495) |
| Preferred stock dividends | (85) | (83) | (96) | (98) |
| Net loss attributable to common stockholders | \$ (1,227) | \$ (2,010) | \$ (964) | \$ (2,593) |
| Loss per common share - Basic | \$ (0.07) | \$ (0.12) | \$ (0.06) | \$ (0.16) |
| Loss per common share - Diluted | \$ (0.07) | \$ (0.12) | \$ (0.06) | \$ (0.16) |

Income (loss) per share for each quarter was computed independently using the weighted-average number of shares outstanding during the quarter. However, income (loss) per share for the year was computed using the weighted-average number of shares outstanding during the year. As a result, the sum of the income (loss) per share for the four quarters may not equal the full year income (loss) per share.