



Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-Q

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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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

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

---

**NATIONAL HOLDINGS CORPORATION**

**FORM 10-Q**

**QUARTERLY PERIOD ENDED DECEMBER 31, 2013**

**INDEX**

**PART I – FINANCIAL INFORMATION**

Item 1 – Unaudited Financial Statements

Unaudited Consolidated Statements of Financial Condition as of December 31, 2013 and September 30, 2013 4

Unaudited Consolidated Statements of Operations for the Three months ended December 31, 2013 and 2012 5

Unaudited Consolidated Statements of Cash Flows for the Three months ended December 31, 2013 and 2012 7

Condensed Notes to Unaudited Consolidated Financial Statements 8

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations 25

Item 3 – Quantitative and Qualitative Disclosures About Market Risk 33

Item 4 – Controls and Procedures 34

**PART II – OTHER INFORMATION**

Item 1 – Legal Proceedings 34

Item 1A – Risk Factors 35

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds 35

Item 3 - Defaults Upon Senior Securities 35

Item 4 - Mine Safety Disclosures 35

Item 5 - Other Information 35

Item 6 – Exhibits 35

Signatures 36



## FORWARD-LOOKING STATEMENTS

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

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

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

**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

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

**National Holdings Corporation Stockholders' Equity**

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

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

**NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

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

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





**NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

**(Unaudited)**

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

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

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-Q

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

acquisition of  
Gilman &  
Ciocia

Fair value of  
stock options  
and restricted  
stock units

Net income  
(loss)

BALANCE,  
December 31,  
2013

\$

\$

-	-	148,000	-
-	-	-	687,000
123,246,888	\$2,465,000	\$76,517,000	\$(53,525,000)

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

## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Edgar Filing: NATIONAL HOLDINGS CORP - Form 10-Q

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

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

**NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**(UNAUDITED)**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements of National Holdings Corporation (“National” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated financial statements as of December 31, 2013 and for the three months ended December 31, 2013 and 2012 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the respective fiscal years. The accompanying consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Merger

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

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

**NOTE 2. CONSOLIDATION**

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

Through its Broker-Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 100,000 retail, high net worth individuals and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engages in trading securities, including making markets in approximately 6,000 micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Its Broker-Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations on a fully disclosed basis. They are registered with the Securities and Exchange Commission (“SEC”), are members of the FINRA, the Securities Investor Protection Corporation (“SIPC”) and the National Futures Association (“NFA”).



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

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

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

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

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

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

### **NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Estimates

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

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

### Revenue Recognition

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

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

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

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

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

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

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

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

#### Cash and Cash Equivalents

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

#### Fixed Assets

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

### Income Taxes

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

### Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

#### Impairment of Long-Lived Assets

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

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

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

#### Common Stock Purchase Warrants

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

#### Convertible Instruments

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

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

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



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

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

#### Net Income (Loss) per Common Share

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

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



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

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

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

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

### Stock-Based Compensation

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

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

#### Market Risk

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

#### Entering into Short Positions

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

### Concentrations of Credit Risk

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

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

### Other Receivables

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

### Advances to Registered Representatives

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

#### Securities Owned

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

### Other Assets

Other assets consist primarily of prepaid expenses and lease deposits.

### Legal and Other Contingencies

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

### Reclassifications

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

### **Recently Adopted Accounting Guidance**

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

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about offsetting assets and liabilities, an accounting update that creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the statement of financial condition

or subject to an enforceable master netting arrangement or similar arrangement. The disclosure requirements are effective for the Company beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company's consolidated statements of income or financial condition.

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

#### **Recent Accounting Guidance Not Yet Adopted**

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



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

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

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

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

#### **NOTE 4- BUSINESS COMBINATION**

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

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

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

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

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

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

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

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

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

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

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

Year ended

September 30,

2014	\$1,650,000
2015	2,083,000
2016	2,083,000
2017	2,083,000
2018	2,083,000
Thereafter	0

18

---

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

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

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

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

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

#### **NOTE 5. CLEARING AGREEMENTS**

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

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

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

**NOTE 7. OTHER RECEIVABLES**

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

**NOTE 8. ADVANCES TO REGISTERED REPRESENTATIVES**

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

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

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

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

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

**Fair Value Measurements****As of December 31, 2013**

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

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

**As of September 30, 2013**

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

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



**NOTE 10. FIXED ASSETS**

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

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

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

**NOTE 11. OTHER ASSETS**

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

**NOTE 12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

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

December  
31,  
2013