

NATIONAL HOLDINGS CORP  
Form 10-K  
December 29, 2014  
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, 2014

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

**410 Park Ave, 14<sup>th</sup> Floor, New York, NY 10022**

(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)

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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

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, 2014, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sales price of \$0.50 per share for the registrant's common stock, as quoted on the OTCQB was approximately \$48,263,649 (calculated by excluding shares owned beneficially by directors, officers and 10% stockholders). As of December 29, 2014 there were 124,454,870 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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## 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;
- our ability to maintain sufficient regulatory net capital;
- the ability of our broker-dealer operations to operate profitably in the face of intense competition from larger full-service and discount brokers;
- a general decrease in financing and merger and acquisition activities and our potential inability to receive success fees as a result of transactions not being completed;
- increased competition from on line and business development portals;
- technological changes;
- our potential inability to implement our growth strategy through recruiting, acquisitions or joint ventures;
- acquisitions, business combinations, strategic partnerships, divestures, and other significant transactions may involve additional uncertainties; and
- our continued ability to maintain and execute our 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,” “we,” “us,” “our,” or the “Company”), a Delaware corporation organized in 1996, operates through its wholly owned subsidiaries which principally provide financial services. Through our broker-dealer and investment advisory subsidiaries, we (1) offer full service retail brokerage to high net worth individual and institutional clients, (2) provide investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engage in trading securities, including making markets in micro and small-cap, NASDAQ and other exchange listed stocks and (4) provide liquidity in the United States Treasury marketplace. Our Broker-Dealer Subsidiaries consist of National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). As a result of the Merger with Gilman in October 2013, the Company added Prime Capital Services, Inc. (“Prime”) to its portfolio of Broker Dealer Subsidiaries, however, in November 2013, National Securities and Prime received approval from the Financial Industry Regulatory Authority (“FINRA”) allowing for a mass transfer of Prime’s brokers and customer accounts to National Securities. This transfer which was completed on November 22, 2013, was done to reduce overhead and consolidate the administrative and regulatory structures of the two entities. Prime filed a Broker Dealer withdrawal in January 2014. The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York City, Boca Raton, Florida, and Seattle, Washington. Broker-Dealer Subsidiaries are introducing brokers and clear all transactions through clearing organizations, on a fully disclosed basis. The Broker-Dealer Subsidiaries are registered with the Securities and Exchange Commission (“SEC”) and the Commodities and Futures Trading Commission, are members of FINRA, Securities Investor Protection Corporation and the National Futures Association.

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

The Company’s wholly-owned subsidiaries, National Asset Management, Inc., a Washington corporation (“NAM”) and Asset and Financial Planning LTD, a New York corporation (“AFP”), which was acquired in the Gilman merger, are federally-registered investment advisers providing asset management advisory services to high net worth clients for a fee based upon a percentage of assets managed. All registered investment advisors and customer accounts of AFP were moved into NAM in May 2014 and AFP has ceased all operations.

Our wholly-owned subsidiaries, National Insurance Corporation, a Washington corporation (“National Insurance”) and Prime Financial Services, a Delaware corporation (“Prime Financial”), which was acquired in the Gilman merger, provide fixed insurance products to their clients, including life insurance, disability insurance, long-term care insurance and fixed annuities.

Our wholly-owned subsidiary, Gilman, provides 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, GC Capital Corporation, a Washington corporation, ("GC") which was acquired in the Gilman merger, provides licensed mortgage brokerage services in the State of Florida.



## **Clearing Relationships**

The Broker-Dealer Subsidiaries have clearing arrangements with National Financial Services LLC (“NFS”), COR Clearing LLC, (“COR”), Industrial and Commercial Bank of China Financial Services, LLC (“ICBC”), Rosenthal Collins Group, LLC (“Rosenthal”), R.J. O’Brien & Associates, LLC (“RJO”), Gain Capital Group LLC (“GCG”) and Archer Daniels Midland Investor Services, Inc. (“ADM”).

## **Financial Information about Industry Segments**

The Company realized approximately 81% of its total revenues in fiscal year 2014 from brokerage services, principal and agency transactions, and investment banking. During fiscal year 2014, brokerage services consisting of retail brokerage commissions represented 62% of total revenues, principal and agency transactions consisting of net dealer inventory gains represented 9% of total revenues, and investment banking, consisting of corporate finance commissions and fees, represented 10% of total revenues. For a more detailed analysis of our results by segment, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

## **Brokerage Services**

The 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 Securities Investor Protection Corporation (“SIPC”), the Municipal Securities Rulemaking Board (“MSRB”) and National Futures Association (“NFA”).

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 and applicable rules and regulations. 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 2014, stocks and options represented approximately 34% of our business, bonds represented approximately 4% of our business, and mutual funds, annuities and insurance made up approximately 10% 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, email, seminars or newsletters.

Our Broker-Dealer Subsidiaries 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 to be 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 goal is to meet the needs of our investment executives and their clients. To foster individual service, flexibility and efficiency and to reduce fixed costs, historically most of our investment executives primarily served as independent contractors responsible for providing their own office facilities, sales assistants, telephone, Internet, computer and other equipment, software, market data, supplies and other items of overhead. However with the merger of Gilman, and the transfer of customers and registered representatives from Prime to National Securities, approximately one third of our total registered representative are now employees. As of September 30, 2014, we had a total of approximately 1,187 associates of which 352 were employees and 835 were independent contractors. Of these, approximately 836 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.

Payments to both our independent and employee registered representatives 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. Where we historically required most of our registered representatives to absorb their own overhead and expenses, the Company now absorbs some of those expenses in exchange for the registered representatives taking a smaller retention on their commissions revenue.

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 and Internet service, computers and other equipment 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 a majority 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 lower or non-production. Our operations include execution of orders, processing of transactions, internal financial controls, supervision and compliance with regulatory and legal requirements.

Our business plan includes the growth of our 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 may occur and we may consider strategic acquisitions in the future, but we are focused on generating positive cash flow and maintaining profitability of our current operations.

Periodic reviews of controls are conducted and supervision, administrative and operations personnel meet frequently with management to review operating conditions. Compliance, supervision and operations personnel monitor

compliance with applicable laws, rules and regulations.

### **Broker Dealer Trading**

Our Broker Dealer subsidiaries buy and may 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, 2014, we made markets in approximately 6,000 micro and small-cap, NASDAQ and other exchange-listed and over the counter quoted stocks. We anticipate that we will continue market-making trading activity in the future, which may include securities of 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 various factors including 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 in both initial and follow-on offering 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. Corporate finance revenues are generated from capital raising transactions of equity and debt securities and fees for strategic advisory services.

## **Investment Advisory Services**

NAM, through its Investment Advisor Representatives (“IAR’s”), offers advisory services as described in its Form ADV Part 2A brochure to clients in various programs. Additional programs offered through NAM are described in its wrap fee program brochure (a wrap program is an advisory program in which advisory fees and execution fees are bundled, and NAM receives a portion of the wrap fee). Wrap fee and other programs are managed in the same manner. Under such customized engagements, clients authorize NAM to purchase and sell securities on a discretionary or non-discretionary basis (depending on the Program) pursuant to investment objectives chosen by the client. The client’s IAR obtains the necessary financial data from the client, and assists in determining the appropriate program. The IAR provides ongoing investment advice and management that is tailored to the individual needs of the client through a review of the profile and objectives of the client. Depending on the program selected and the client’s profile and objectives, the types of securities that may be purchased or sold include mutual funds, ETFs (including inverse and leveraged ETFs), equities, options, fixed income securities, structured notes, interests in partnerships such as real estate, oil and gas, as well as management of variable annuity subaccounts. Clients generally may impose reasonable restrictions on investing in certain securities or groups of securities. If the client’s instructions are unreasonable or NAM believes the instructions are inappropriate for the client, we will notify the client that, unless the instructions are modified, we may terminate the client’s advisory agreement. NAM cannot accept instructions that prohibit or restrict the investment advisor of an open-end or closed-end mutual fund or exchange-traded fund, with respect to the purchase or sale of specific securities or types of securities within the mutual fund. Execution services are provided by an affiliated or unaffiliated broker-dealer.

NAM provides investment advisory services to private funds. The detailed terms, strategies, and risks applicable to investors in the private funds are described in the private fund’s organizational documents and offering memorandum. NAM does not recommend fund interests for client advisory accounts.

## **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 investment opportunities and independent research products. 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 as well as special execution services using volume weighted averages and average pricing for micro and small-cap stocks. We believe that our investment executives engaged in Institutional Services have a mutually beneficial relationship with our Investment Banking Division (“IBD”) as fund managers looking for investment opportunities fund IBD’s corporate clients and our relationships with fund managers may create opportunities to increase the number and quality of IBD clients.

## **Administration, Operations, Securities Transactions Processing and Customer Accounts**

The Broker-Dealer Subsidiaries do not hold any funds or securities for customers. Rather, they use the services of clearing agents on a fully-disclosed basis. These clearing agents process securities transactions and maintain customer accounts. In addition to transactions executed through our clearing agents, the Broker Dealer Subsidiaries also conduct direct business. Customer accounts are protected through SIPC for up to \$500,000, of which coverage for cash balances is limited to \$250,000. In addition to SIPC protection, NFS, our primary clearing agent, provides brokerage accounts additional “excess of SIPC” coverage from Lloyd’s of London, together with other insurers. The “excess of SIPC” coverage would only be used when SIPC coverage is exhausted. Like SIPC protection, “excess of SIPC” protection does not cover investment losses in customer accounts due to market fluctuations. It also does not cover other claims for losses incurred while the firms remain in business. Total aggregate “excess of SIPC” coverage available on all accounts held at National Financial Services is \$1.0 billion. Within the “excess of SIPC” coverage, there is no per account dollar limit on coverage of securities, just a per account limit of \$1.9 million on coverage of cash.

## **Tax Preparation and Accounting Services**

We provide tax preparation services through our wholly-owned subsidiary, Gilman. Tax preparation business is conducted predominantly during the period from February through April of each year. During the 2013 tax year season, Gilman prepared approximately 20,000 United States income tax returns, state and local returns.

We believe that we offer clients a cost effective and proactive tax preparation and tax planning service. Gilman's volume allows it to provide uniform services at competitive prices. In addition, as compared to certain of its competitors that are open only during tax season, all of Gilman's offices are open year round to provide financial planning and other services to our clients. Gilman's tax preparers are generally not certified public accountants, attorneys or enrolled agents. Therefore, they are limited in the representation that they can provide to clients in the event of an audit by the IRS.

## **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, the U.K., Europe 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 and independent contractors in the financial services industry is intense. Our continued ability to compete effectively depends on our ability to attract new employees and independent contractors and to retain and motivate our existing employees and independent contractors. For a further discussion of risks facing the Company, please see "Risk Factors".

In addition, our tax preparation business is also subject to extensive competition. We compete with national tax return preparers such as H&R Block, Jackson Hewitt, and Liberty Tax. The remainder of the tax preparation industry is highly fragmented and includes regional tax preparation services, accountants, attorneys, small independently owned companies, and financial service institutions that prepare tax returns as ancillary parts of their business. To a much lesser extent, we compete with the on-line and software self-preparer market.

## **Government Regulation and Supervision**

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

Each of National Securities and vFinance Investments is subject to the Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. During 2014, pursuant to a directive from FINRA, National Securities changed from using the alternative method of computing net capital to the aggregate indebtedness method. At September 30, 2014, National Securities had net capital of \$8,698,839 which was \$6,682,242 in excess of its required net capital of \$2,016,597. At September 30, 2014, vFinance Investments had net capital of \$3,242,156 which was \$2,242,156 in excess of its required net capital of \$1,000,000. National Securities' and vFinance Investments' percentage of aggregate indebtedness to net capital was 347.7% and 73.2%, respectively. Each of National Securities and vFinance Investments claims exemption from the provisions of the Rule pursuant to paragraph (k)(2)(ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.



The Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the FINRA Conduct Rules require the Broker-Dealer Subsidiaries to supervise the activities of its investment executives. As part of providing such supervision, these subsidiaries maintain written supervisory procedures. Compliance personnel and independent auditors conduct inspections of branch offices periodically to review compliance with the Company's procedures. A registered principal provides onsite supervision at most of the Broker-Dealer Subsidiaries' larger offices. The smaller offices are supervised by registered principals off site. Designated principals review customer trades to ensure compliance with FINRA Conduct Rules.

Our tax preparation business is also subject to extensive regulation. Federal legislation requires income tax return preparers to, among other things, register as a tax preparer, set forth their signatures and identification numbers on all tax returns prepared by them, and retain all tax returns prepared by them for three years. Federal laws also subject income tax preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they continuously and repeatedly engage in specified misconduct. In addition, authorized IRS e-filer providers are required to comply with certain rules and regulations, as per IRS Publication 1345 and other notices of the IRS applicable to e-filing.

IRS regulations require among other things, that all tax return preparers use a Preparer Tax Identification Number (“PTIN”) as their identifying number on federal tax returns filed after December 31, 2010; require all tax return preparers to be authorized to practice before the IRS as a prerequisite to obtaining or renewing a PTIN; causing all previous issued PTIN's to expire on December 31, 2010 unless properly renewed; allowing the IRS to conduct tax compliance checks on tax return preparers; and defining the individuals who are considered “tax return preparers” for the PTIN applicants. The IRS also conducts background checks on PTIN applicants.

The Gramm-Leach-Bliley Act and related Federal Trade Commission (“FTC”) regulations require us to adopt and disclose customer privacy policies.

### **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 of 1933, as amended (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 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 the Broker-Dealer Subsidiaries are currently registered as broker-dealers in the jurisdictions described in this Annual Report, all of our subsidiaries are qualified to do business as corporations in only a few international 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) and Gilman Ciocia(R).

## Employees

As of September 30, 2014, the Company's personal consisted of the following:

| Position                      | Salaried<br>Employees | Independent<br>Contractors | Total |
|-------------------------------|-----------------------|----------------------------|-------|
| Officers                      | 14                    | -                          | 14    |
| Administration                | 182                   | 185                        | 367   |
| Brokers                       | 91                    | 634                        | 725   |
| Traders                       | 33                    | -                          | 33    |
| Investment Bankers            | 9                     | -                          | 9     |
| Advisors                      | 1                     | 13                         | 14    |
| Accountants and tax preparers | 22                    | 3                          | 25    |
| Totals                        | 352                   | 835                        | 1,187 |

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 subsidiaries' supervisory procedures and not to solicit other employees or brokers in the event of termination.

## Seasonality and Backlog

Other than our tax preparation business, we are not subject to significant seasonal fluctuations, and there are no material backlogs in our business. Because most tax returns are filed during the period from February through April of each year, most revenues from our tax preparation and related services and products will be earned during this period.

### **Research and Development and Environmental Matters**

We did not incur any research and development expenses during the last two 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.

### **Reports to Security Holders**

We maintain a website with the address [www.nhldcorp.com](http://www.nhldcorp.com). We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We are not including the information on our website as a part of, nor incorporating it by reference into, this report. You may read and copy any materials we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. Additionally, the SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including us) file electronically with the SEC. The SEC's website address is <http://www.sec.gov>.

## **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**

#### **We may not be able to sustain profitability.**

We reported net income of approximately \$18.6 million in fiscal year 2014 as compared to a net income of approximately \$1.6 million in fiscal year 2013. There is no assurance that we will continue to be profitable in the future. If we are unable to 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.). There can be no assurance that we will be successful in any such pursuits. Accordingly, if we are unable to generate adequate cash from our operations, and if we are unable to find sources of funding, such an event would have an adverse impact on our liquidity

#### **We are exposed to risks due to investment banking activities.**

Participation in an underwriting syndicate or a selling group involves both economic and regulatory risks. An underwriter may incur losses if it is unable to resell the securities it is committed to purchase, or if it is forced to liquidate its commitment at less than the purchase price. In addition, under federal securities laws, other laws and court decisions with respect to underwriters' liabilities and limitations on the indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for misstatements or omissions of material facts in prospectuses and other communications with respect to such offerings. Acting as a managing underwriter increases these risks. Underwriting commitments constitute a charge against net capital and our ability to make underwriting commitments may be limited by the requirement that it must at all times be in compliance with the 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 we are 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 Robert B. Fagenson and Mark H. Goldwasser, as well as our ability to hire additional members of management, and to retain and motivate other officers and key employees. We may not be able to find an appropriate replacement for any or all of the aforementioned or any other executive officer if the need should arise. Due to the regulated nature of some of our businesses, some of our executive officers, or other key personnel, could become subject to suspensions or other limitations on the scope of their services to the Company from time to time. If we lose the services of any executive officers or other key personnel, we may not be able to manage and grow our operations effectively, enter new brokerage markets or develop new products.

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

Each of National Securities and vFinance Investments is subject to the Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. During 2014, pursuant to a directive from FINRA, National Securities changed from using the alternative method of computing net capital to the aggregate indebtedness method. At September 30, 2014, National Securities had net capital of \$8,698,839 which was \$6,682,242 in excess of its required net capital of \$2,016,597. At September 30, 2014, vFinance Investments had net capital of \$3,242,156 which was \$2,242,156 in excess of its required net capital of \$1,000,000. National Securities' and vFinance Investments' percentage of aggregate indebtedness to net capital was 347.7% and 73.2%, respectively. Each of National Securities and vFinance Investments claims exemption from the provisions of the Rule pursuant to paragraph (k)(2)(ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

The Rule is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with the 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. The Broker-Dealer Subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below the minimum 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 the Rule is changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain present levels of business, which could have a material adverse effect on our business.

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

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

**Our revenues may decline in adverse market or economic conditions.**

Unfavorable financial or economic conditions may reduce the number and size of the transactions in which we provide underwriting services, merger and acquisition consulting and other services. Our investment banking revenues, in the form of financial advisory, placement agent and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. Additionally, a downturn in market conditions could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenues we receive from commissions and spreads. We must review customer relationships for impairment whenever events or circumstances indicate that impairment may be present. 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 may 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 shares of common stock. In market making transactions, we undertake the risk of price changes on the stock we hold in positions, or being unable to resell the shares of common stock we hold, or being unable to purchase the common stock we have sold but not yet purchased. These risks are heightened by the illiquidity of many of the shares of common stock we trade and/or make a market. Any losses from our trading activities, including as a result of unauthorized trading by our employees, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

We depend on dividends, distributions and other payments from our subsidiaries to fund our obligations. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In

particular, the 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 Company'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 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.

**Government initiatives that simplify tax return preparation could reduce the need for tax preparation services as a third party tax return preparer.**

Many taxpayers seek assistance from paid tax return preparers such as us because of the level of complexity involved in the tax return preparation and filing process. From time to time, government officials propose measures seeking to simplify the preparation and filing of tax returns or to provide additional assistance with respect to preparing and filing such tax returns. The passage of any measures that significantly simplify tax return preparation or otherwise reduce the need for a third party tax return preparer could reduce demand for our services which may adversely affect operating results.

**Changes in the tax law that result in a decreased number of tax returns filed or a reduced size of tax refunds could harm our business.**

From time to time, the United States Treasury Department and the Internal Revenue Service adopt policy and rule changes and other initiatives that result in a decrease in the number of tax returns filed or reduce the size of tax refunds. Such changes in the tax law could reduce demand for our services, causing our operating results to be adversely affected.

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

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

effectively use new technologies;

adapt our services to emerging industry or regulatory standards; or

market new or enhanced services.

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

our business could be seriously harmed.

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

The securities industry and our business are subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. We are also regulated by industry self-regulatory organizations, including FINRA, the MSRB and the NFA. The 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's subsidiaries involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. These regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements. If we are found to have violated an applicable regulation, administrative or judicial proceedings may be initiated against us that may result in a censure, fine, civil penalties, issuance of cease-and-desist orders, the deregistration or suspension of our regulated activities, the suspension or disqualification of our officers or employees, or other adverse consequences. The imposition of any of these or other penalties could have a material adverse effect on our operating results and financial condition.

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

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



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

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

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

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

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

**We face significant competition for registered representatives.**

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

**A change in the “independent contractor” status of registered representatives would adversely affect us.**

Independent contractor registered representatives operate from their own offices and are responsible in large part for the costs and expenses involved in their operations. The enactment of any legislation that would affect the eligibility requirements for independent contractor status could have a significant effect on this business model and lead to additional costs and expenses, which could have a material adverse on our results of operations.

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

We run the risk that employee and independent contractor misconduct could occur. Misconduct by employees **and independent contractors** could include:

employees **and independent contractors** binding us to transactions that exceed authorized limits or present unacceptable risks to us;

employees **and independent contractors** 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 **and independent contractor** misconduct does occur, our business operations could be materially adversely affected.

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

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

human error;

subsystem, component, or software failure;;

a power or telecommunications failure;

an earthquake, fire, or other natural disaster or act of God;



hacker attacks or other intentional acts of vandalism; or;

terrorist acts or war.

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

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

**Risks Related to our Common Stock**

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

Our common stock is quoted on the OTCQB. Traditionally, the trading volume of the common stock has been limited. For example, for the 30 trading days ending on September 30, 2014, the average daily trading volume was approximately 136,345 shares per day. During such 30-day period the closing price of our common stock ranged from a high of \$0.54 to a low of \$0.48. Because of this limited trading volume, holders of our securities may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

**The price of our common stock is volatile.**

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



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

As of September 30, 2014, our executive officers, directors and/or entities that these individuals are affiliated with, owned approximately 28% of our outstanding common stock, or approximately 27.2% on a fully-diluted basis. Accordingly, these individuals and entities will be able to significantly influence most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions.

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

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

must make a special written suitability determination for the purchaser;

receive the purchaser's written agreement to a transaction prior to sale;

provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and;

obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed

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

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

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

dividend rights;

conversion rights;

voting rights, which may be greater or lesser than the voting rights of our common stock;

rights and terms of redemption;

liquidation preferences; and;

sinking fund terms.

At September 30, 2014, there are no shares of our preferred stock outstanding. The issuance of shares of preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company.

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

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

**Item 2. PROPERTIES**

The Company owns no real property. Its corporate headquarters are in space leased by the Company in New York, New York and Boca Raton, Florida. Independent contractors individually lease the branch offices that are operated by those independent contractors. The Company also leases additional office space, all of which are shown in the table below.

Leases expire at various times through August 2021. 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 the Company and its subsidiaries.

The following chart provides information related to these lease obligations as of September 30, 2014:

| <b>Address</b>                                    | <b>Approximate Square Footage</b> | <b>Approximate Annual Base Lease Rental</b> | <b>Note Lease Termination Date</b> |
|---|-----------------------------------|---|------------------------------------|
| 410 Park Ave, 14th Floor New York, NY             | 11,885                            | \$ 582,365                                  | 30-Oct-18                          |
| 1001 Fourth Ave, Suite 3750 Seattle, WA           | 9,739                             | \$ 338,436                                  | 30-Jun-17                          |
| 1200 N. Federal Highway, Suite 400 Boca Raton, FL | 11,510                            | \$ 305,475                                  | 31-Aug-21                          |
| 2875 NE 191st Street Suite 601 Aventura FL        | 5,208                             | \$ 214,464                                  | 31-May-15                          |
| 61Glen Cove Rd Greenvale NY                       | 3,000                             | \$ 176,148                                  | 18-May-15                          |
| 11 Raymond Ave Suite 22/32 Poughkeepsie NY        | 6,436                             | \$ 161,220                                  | 30-Jun-18                          |
| 111 South Wacker Drive Chicago, IL                | 4,544                             | \$ 136,320                                  | (a) 30-Apr-17                      |
| 35-30 Francis Lewis Blvd Flushing NY              | 4,600                             | \$ 123,516                                  | 31-Jul-16                          |
| 14802 N. Dale Mabry Blvd Suite 101 Tampa FL       | 5,000                             | \$ 119,604                                  | 31-Dec-16                          |
| 901 E. Las Olas Blvd Fort Lauderdale FL           | 3,911                             | \$ 117,336                                  | Three months notice                |
| 4000 Rt. 66, Suite 331 Tinton Falls, NJ           | 4,258                             | \$ 107,450                                  | 30-Nov-15                          |
| 2424 N. Federal Highway Suite 200 Boca Raton FL   | 6,075                             | \$ 105,636                                  | 31-Dec-16                          |
| 540 Gidney Ave Newburgh NY                        | 2,500                             | \$ 90,504                                   | 30-Jun-16                          |
| 11 Raymond Ave Suite 34/36 Poughkeepsie NY        | 3,558                             | \$ 89,136                                   | 31-Jan-15                          |
| 500 Portion Rd Suite 306Lake Ronkonkoma NY        | 2,727                             | \$ 82,728                                   | 1-Jan-15                           |
| 3535 Military Trail Suite 103/202 Jupiter FL      | 5,760                             | \$ 81,132                                   | Six month notice                   |
| 20 Squadron Blvd Suite 103 New City NY            | 2,042                             | \$ 75,576                                   | 31-Aug-19                          |
| 7370 College Parkway Ft Meyers FL                 | 3,749                             | \$ 69,648                                   | 30-Nov-16                          |
| 1550 Third Ave Suite 103 New York NY              | 1,212                             | \$ 62,988                                   | 30-Nov-17                          |
| 5839 Main St Williamsville NY                     | 3,159                             | \$ 62,016                                   | 31-Dec-15                          |
| 2800 Bruckner Blvd Suite 205 Bronx NY             | 2,500                             | \$ 56,244                                   | 30-Jun-16                          |
| 970 N. Congress Ave Suite200 Boynton Beach FL     | 2,702                             | \$ 51,336                                   | 30-Jun-17                          |
| 2619 Emmons Ave Brooklyn NY                       | 1,500                             | \$ 38,460                                   | month to month                     |
| 1501 W. Fairbanks Ave Winter Park FL              | 1,840                             | \$ 36,000                                   | Six months notice                  |

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|   |       |           |                   |
|---|-------|-----------|-------------------|
| 5959 Central Ave Suite 100 St Petersburg FL       | 1,859 | \$ 32,172 | 30-Apr-17         |
| 5550 Merrick Rd Suite 300 Massapequa NY           | 1,575 | \$ 30,072 | Six months notice |
| 26750 US19, North Suite 110 Clearwater FL         | 1,400 | \$ 29,484 | 31-Dec-14         |
| 982 Main St Fishkill NY                           | 1,500 | \$ 25,500 | 31-Dec-15         |
| 3301 Bonita Beach Rd Suite 107 Bonita Beach FL    | 1,740 | \$ 25,092 | 31-Aug-15         |
| 44 Stelton Rd Piscataway NJ                       | 1,242 | \$ 23,160 | 31-Dec-15         |
| 10220 US Hwy 19 Port Richie FL                    | 1,016 | \$ 21,732 | 30-Jun-15         |
| 3535 Military Trail Suite 201 Jupiter FL          | 1,544 | \$ 20,016 | Six months notice |
| 3265 Johnson Ave Suite 201 Riverdale NY           | 161   | \$ 19,680 | 31-Aug-15         |
| 131 Gaither Drive Mount Laurel, NJ                | 1,400 | \$ 19,600 | Month to Month    |
| 2170 W. St. Rd. 434 Longwood, FL                  | 940   | \$ 13,632 | 30-Sep-15         |
| a) This lease is sublet to an unaffiliated entity |       |           |                   |

**Item 3. LEGAL PROCEEDINGS**

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately \$15,000,000 in aggregate. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, 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, 2014 and 2013, are approximately \$440,000 and approximately \$322,000, 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 \$1,542,000 and \$1,022,000 for fiscal years 2014 and 2013, respectively.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**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 OTCQB. Quotations on the OTCQB reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

The following table sets forth the high and low closing sales prices for the common stock as reported on the OTCQB for the period from October 1, 2012 to September 30, 2014.

| <b>Period</b>                     | <b>High</b> | <b>Low</b> |
|-----------------------------------|-------------|------------|
| October 1, 2012/December 31, 2012 | \$0.36      | \$0.13     |
| January 1, 2013/March 31, 2013    | \$0.36      | \$0.16     |
| April 1, 2013/June 30, 2013       | \$0.30      | \$0.18     |
| July 1, 2013/September 30, 2013   | \$0.40      | \$0.25     |

| <b>Period</b>                     | <b>High</b> | <b>Low</b> |
|-----------------------------------|-------------|------------|
| October 1, 2013/December 31, 2013 | \$0.59      | \$0.36     |
| January 1, 2014/March 31, 2014    | \$0.58      | \$0.47     |
| April 1, 2014/June 30, 2014       | \$0.58      | \$0.49     |
| July 1, 2014/September 30, 2014   | \$0.59      | \$0.48     |

The closing price of the common stock on December 23, 2014, as quoted on the OTCQB, was \$0.46 per share.

**Stockholders**



As of September 30, 2014, the Company had approximately 398 stockholders of record and estimates its total number of beneficial stockholders at approximately 663.

## **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 subsidiaries' obligations to comply with the net capital requirements imposed on broker-dealers by the SEC and FINRA. We do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. No cash dividends have been declared or paid by the Company with respect to its common stock during the past two fiscal years.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth information as of September 30, 2014 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (b) (c)) |
|--|---|---|---|
|  | (a)   | (b)   |   |
| Equity compensation plans (1) not approved by security holders | 12,757,895  | \$ 0.63   | 1,542,394   |

(1) Consists of options and restricted stock units issued under the Company's 2013 Omnibus Incentive Plan

**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 Annual Report on Form 10-K 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 independent brokerage and advisory services and asset management services, investment banking, equity research and institutional sales and trading, through our principal subsidiaries, National Securities Corporation ("National Securities or "NSC") and vFinance Investments, Inc. ("vFinance Investments") (and collectively with National Securities and vFinance Investments, the "Broker-Dealer Subsidiaries"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our retail, corporate and institutional clients. Following the Company's merger with Gilman Ciocia, Inc., a Delaware corporation ("Gilman") in October 2013, we provide tax preparation services through Gilman, which is now our wholly-owned subsidiary. In November 2013, following approval from the Financial Industry Regulatory Authority ("FINRA"), National Securities received a transfer of Gilman's Prime Capital Services retail brokers and customer accounts.

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

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

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

As of September 30, 2014, we had approximately 1,187 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our offices in New York City, New York, Tinton Falls, New Jersey, Boca Raton and Longwood, Florida, Boerne, Texas and Seattle, Washington, the Company has added approximately 26 Gilman corporate offices and with our approximately 126 other registered offices, most of which are operated by (and either leased or owned by) our independent contractors who must maintain all appropriate licenses and are responsible for all office overhead and expenses, our combined branch count is approximately 152.

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

#### **Fiscal Year 2014 Highlights**

##### *Merger with Gilman*

On October 15, 2013, we completed a merger with Gilman. Pursuant to the terms and conditions of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 20, 2013, by and among 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 us.

Pursuant to the Merger Agreement, the Company issued to the Gilman stockholders 0.235019 shares of its common stock for each outstanding share of Gilman common stock.

### 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 registered representatives organically. These acquisitions may involve payments of material amounts of cash, the incurrence of a significant amount of debt or the issuance of significant amounts of our equity securities, which may be dilutive to our existing stockholders and/or may increase our leverage. We cannot assure you that we will be able to consummate any such potential acquisitions at all or on terms acceptable to us or, if we do, that any acquired business will be profitable.

### Key Indicators of Financial Performance for Management

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

### **Critical Accounting Policies and Estimates**

The SEC recently issued proposed guidance for disclosure of critical accounting policies and estimates. 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 - Commission revenue represents commissions generated by the Company's financial advisors for their clients' purchases and sales of mutual funds, variable annuities, general securities and other financial

products, most of which is paid to the advisors as commissions for initiating the transactions.

Commission revenue is generated from front-end sales commissions that occur at the point of sale, as well as trailing commissions. The Company recognizes front-end sales commission revenue and related clearing and other expenses on transactions introduced to its clearing brokers on a trade date basis. The Company also recognizes front-end sales commissions and related expenses on transactions initiated directly between the financial advisors and product sponsors upon receipt of notification from sponsors of the commission earned. Commission revenue also includes 12b-1 fees, and variable product trailing fees, collectively considered as trailing fees, which are recurring in nature. These trailing fees are earned by the Company based on a percentage of the current market value of clients' investment holdings in trail eligible assets. Because trail commission revenues are generally paid in arrears, management estimates commission revenues earned during each period. These estimates are based on a number of factors including investment holdings and the applicable commission rate and the amount of trail commission revenue received in prior periods. Estimates are subsequently adjusted to actual based on notification from the sponsors of trail commissions earned.

Net dealer inventory gains, which are recorded on a trade-date basis, include realized and unrealized net gains and losses resulting from the Company's principal trading activities.

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.

Investment banking revenues consist of underwriting revenues, advisory revenues and private placement fees. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Underwriting revenues are recorded at the time the underwriting is completed and the income is reasonably determined. Management estimates the Company's share of the transaction-related expenses incurred by the syndicate, and recognizes revenues net of such expense. On final settlement, typically within 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses and the resulting underwriting fee.

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

Interest is recorded on an accrual basis and dividends are recorded on the ex-dividend date.

Transfer fees and fees for clearing services, which are recorded on a trade date basis, are principally charged to the broker on customer security transactions.

Tax preparation and accounting fees are recognized upon completion of the services.



Income Taxes - The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured, using enacted tax rates expected to apply in the years in which the differences are expected to be recovered or settled. 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.

Stock-based Compensation -The Company measures the cost of employee, officer and director services received in exchange for an award of equity instruments including stock options and restricted stock units, based on the grant-date fair value of the award and measures the cost of independent contractor awards based on the vesting date fair value of the award. The cost is recognized as compensation expense over the service period, which would normally be the vesting period of the award.

## Results of Operations

### Fiscal Year 2014 Compared with Fiscal Year 2013

The Company's fiscal year 2014 resulted in an increase in revenues, and a commensurate increase in total expenses, as compared with fiscal year 2013. As a result, the Company reported net income before taxes of \$7,822,000 for the fiscal year ended September 30, 2014 as compared to \$1,625,000 for fiscal year end 2013. In addition, the Company recognized a deferred income tax benefit of \$10,821,000 in fiscal year 2014 (resulting primarily from the recognition of the probable ability of the Company to make use of net operating loss carryovers in future tax years) compared to income tax expense of 60,000 in fiscal 2013. Net income reported for fiscal years 2014 and 2013 amounted to \$18,643,000 and \$1,565,000, respectively.

#### Revenues

|                                     | Fiscal Year   |               | Increase ( Decrease) |         |    |
|-------------------------------------|---------------|---------------|----------------------|---------|----|
|                                     | 2014          | 2013          | Amount               | Percent |    |
| Commissions                         | \$114,301,000 | \$78,168,000  | \$36,133,000         | 46      | %  |
| Net dealer inventory gains          | 16,482,000    | 13,426,000    | 3,056,000            | 23      | %  |
| Investment banking                  | 19,035,000    | 14,002,000    | 5,033,000            | 36      | %  |
| Investment advisory                 | 14,161,000    | 9,508,000     | 4,653,000            | 49      | %  |
| Interest and dividends              | 3,541,000     | 3,935,000     | (394,000 )           | (10     | %) |
| Transfer fees and clearing services | 8,676,000     | 7,740,000     | 936,000              | 12      | %  |
| Tax preparation and accounting      | 7,811,000     | -             | 7,811,000            | -       | %  |
| Other                               | 285,000       | 804,000       | (519,000 )           | (65     | %) |
|                                     | \$184,292,000 | \$127,583,000 | \$56,709,000         | 44      | %  |

Total revenues increased \$56,709,000, or 44%, in fiscal year 2014 to \$184,292,000 from \$127,583,000 in fiscal year 2013. The increase in revenues is primarily due to the merger with Gilman in addition to favorable market conditions allowing for an increase in nearly all areas of our business.

Commissions revenues increased by \$36,133,000, or 46%, to \$114,301,000 from \$78,168,000 during fiscal year 2014 when compared to the prior year, contributed to in part by the addition of Prime Capital Services registered representatives and significantly higher volumes of transactions made on behalf of our clients due to favorable market conditions;

Net dealer inventory gains, which includes profits on proprietary trading, market making activities, and customer mark-ups and mark-downs increased by \$3,056,000, or 23%, to \$16,482,000 from \$13,426,000 during fiscal year

2014 when compared to fiscal 2013, primarily due to favorable trading conditions affecting our market making and bond trading activities in the year ended September 30, 2014, as compared to the prior year period;

Investment banking fees increased by \$5,033,000, or 36%, to \$19,035,000 from \$14,002,000, during fiscal year 2014 when compared to the prior year. The Company completed more investment banking transactions and raised more capital for investment banking clients in fiscal year 2014 as compared to fiscal 2013;

Investment advisory fees, which primarily consists of fees charged to our clients in our asset based money management group, increased by \$4,653,000, or 49%, to \$14,161,000 from \$9,508,000 during fiscal year 2014 when compared to the prior year. The increase is primarily due to the addition of Gilman's registered investment advisory business, Asset and Financial Planning, which increased the total assets under management during the most recent year;

Interest and dividends which primarily consists of interest earned on customer margin account balances and dividend revenue, decreased by \$394,000, or 10% to \$3,541,000 from \$3,935,000 during fiscal year 2014 when compared to the prior year. The decrease is due to lower customer margin account balances and lower customer free cash balances;

Transfer fees and clearing services revenue, which primarily consists of fees charged to our registered representatives to execute on their behalf, increased by \$936,000, or 12%, to \$8,676,000 from \$7,740,000 during fiscal year 2014 when compared to the prior year. The increase is consistent with the higher number of transactions made on behalf of our clients during the most recent year as evidenced by higher commission revenue;

Tax preparation and accounting revenue, which primarily consists of fees charged to clients for the preparation of taxes and other general accounting services performed amounted to \$7,811,000 during fiscal year 2014. The Company did not provide these service in 2013.

*Operating expenses*

|                                     | Fiscal Year    |                | Increase ( Decrease) |         |    |
|-------------------------------------|----------------|----------------|----------------------|---------|----|
|                                     | 2014           | 2013           | Amount               | Percent |    |
| Commissions, compensation, and fees | \$ 152,145,000 | \$ 109,563,000 | \$42,582,000         | 39      | %  |
| Clearing fees                       | 3,701,000      | 2,840,000      | 861,000              | 30      | %  |
| Communications                      | 4,772,000      | 4,494,000      | 278,000              | 6       | %  |
| Occupancy                           | 4,056,000      | 2,070,000      | 1,986,000            | 96      | %  |
| Licenses and registration           | 1,620,000      | 1,483,000      | 137,000              | 9       | %  |
| Professional fees                   | 4,099,000      | 2,642,000      | 1,457,000            | 55      | %  |
| Interest                            | 33,000         | 248,000        | (215,000 )           | (87     | %) |
| Depreciation and amortization       | 1,136,000      | 926,000        | 210,000              | 23      | %  |
| Other administrative expenses       | 4,908,000      | 1,530,000      | 3,378,000            | 221     | %  |
|                                     | \$ 176,470,000 | \$ 125,796,000 | \$ 50,674,000        | 40      | %  |

In comparison with the 44% increase in total revenues, total expenses increased 40%, or \$50,674,000, to \$176,470,000 for fiscal year 2014 compared to \$125,796,000 in fiscal year 2013. The increase in total expenses is commensurate with the increase in revenues, and is primarily a result of the added fixed and variable costs associated with the Gilman merger.

Commission, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as salaries and wages paid to our employees, brokers, and support staff, increased by \$42,582,000, or 39%, to \$152,145,000 from \$109,563,000 during fiscal year 2014 when compared to the prior year. The increase is commensurate with the increase in revenues brought about by the merger with Gilman, and the increase in revenues from the incremental increase in production by our existing brokers resulting from the favorable market conditions, driving higher commissions expense as well as an increase in payroll from the additional staff acquired in the merger with Gilman. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating \$243,000 and \$349,000 for fiscal years 2014 and 2013, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with the Company's operating subsidiaries. Employee compensation also includes the amortization of the fair value of stock based compensation which amounted to \$1,124,000 and \$379,000 in fiscal years 2014 and 2013, respectively.

Clearing fees increased by \$861,000 or 30% to \$3,701,000 from \$2,840,000 during fiscal year 2014 when compared to the prior year. The increase is commensurate with an increase in transaction volumes and clearance service revenues related to both the new transaction volumes associated with the Gilman merger and the increase in revenues from the favorable market conditions, offset by lower clearing costs as a result of our renegotiated clearing agreement with NFS which took effect in the third quarter of fiscal year 2014.

Communication expenses increased by \$278,000 or 6%, to \$4,772,000 from \$4,494,000 during fiscal year 2014 when compared to the prior year. This increase is primarily due to the increase telecommunications needs associated with the business locations acquired in the Gilman merger.

Occupancy expenses increased by \$1,986,000, or 96%, to \$4,056,000 from \$2,070,000 during fiscal year 2014 when compared to the prior year. This year, as a result of the Gilman merger, we acquired 27 new corporate offices located primarily in New York, New Jersey and Florida. These offices collectively cost the Company approximately \$2,100,000 in annual base rent. This increase is offset by savings achieved through (i) relocating our principal executive office in New York City from Downtown to Midtown in order to take advantage of a more efficient floorplan and by reducing our footprint from 22,000 square feet to just under 12,000 square feet, and (ii) renegotiating our Boca Raton, Florida office lease to reduce our footprint by over 5,000 square feet and eliminating a sublet agreement and redesigning the remaining space to create efficiencies sufficient to accommodate the same employee headcount.

Licenses and registration costs increased by \$137,000, or 9%, to \$1,620,000 from \$1,483,000 during fiscal year 2014 when compared to the prior year. This increase is primarily due to the increase in the number of registered representatives resulting from the Gilman merger.

Professional fees increased by \$1,457,000, or 55% to \$4,099,000 from \$2,642,000 during fiscal year 2014 when compared to the prior year. The increase in professional fees is primarily a result of legal and consulting costs incurred in connection with the Gilman merger as well as several other transactions and events that the Company was involved in during fiscal year 2014 as compared to 2013.

Interest expense decreased by \$215,000, or 87%, to \$33,000 from \$248,000 during fiscal year 2014 when compared to the prior year. The decrease is due to the Company's Recapitalization in 2013 which allowed for the repayment of all outstanding debt.

Depreciation and amortization expense increase by \$210,000, or 23%, to \$1,136,000 from \$926,000 during fiscal year 2014 when compared to the prior year. The increase is due to the amortization of the newly acquired intangibles resulting from the Gilman merger in 2014 offset by the decrease in amortization due to the intangibles associated with merger with vFinance in 2008 having been completely amortized in the third quarter of 2013.

Other administrative expenses which includes but is not limited to advertising, equipment leases, office supplies, dues and subscriptions and insurance increased by \$3,378,000, or 221%, to \$4,908,000 from \$1,530,000 during fiscal year 2014 compared to 2013. This increase is due to the addition of office locations associated with the Gilman merger.

### *Loss on investment of unaffiliated entity*

In December 2012, we fully reserved against our interest in an unaffiliated entity, an investment made by vFinance, Inc. in 2006. This resulted in a loss of investment in unaffiliated entity of \$162,000. We did not incur such losses during fiscal year 2014.

### *Income tax (benefit) expense*

The variations in the Company's income tax (benefit) expense consists of the following:

During fiscal 2013, the Company primarily recognized as expense its federal obligations under the alternative minimum tax;

During fiscal 2014, the Company primarily recognized as benefit its net deferred tax assets because it believes that it was more likely than not that it would recognize such benefits, offset by expenses reflecting its federal obligations under the alternative minimum tax and its state obligations under ordinary income tax.

At September 30, 2013, the Company had a deferred tax asset arising substantially from the benefits of such net operating loss carryforwards and had recorded a valuation allowance for the full amount of this deferred tax asset, since it was more likely than not that the full amount of the deferred tax asset may not be realized.

In the fourth quarter of fiscal 2014, after utilization of the Company's net operating loss carryforward to offset taxable income for 2014 and the corresponding reversal of a portion of the valuation allowance, the remaining valuation allowance of approximately \$11,925,000, including \$1,809,000 recorded in connection with the acquisition of Gilman, was reversed and recorded as a deferred tax benefit in the consolidated statement of operations. Management's decision for such reversal was based on income from operations in 2014 as well as recent trends and expectations of future profitability. Based on such available evidence, management concluded that it is more likely than not that it's

deferred tax assets would be realized.

### **Net Income**

The Company reported net income of \$18,643,000 in fiscal year 2014 compared to net income of \$1,565,000 in fiscal year 2013. The profit attributable to common stockholders in fiscal year 2014 was \$18,643,000 or \$0.15 per common share, as compared to a net profit attributable to common stockholders of \$1,565,000, or \$0.02 per common share in fiscal year 2013.

### **NON-G.A.A.P. INFORMATION**

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our board of directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-based compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For fiscal years 2014 and 2013, EBITDA, as adjusted, was \$10,358,000 and \$4,002,000, respectively. This improvement of 6,356,000 during fiscal year 2014 when compared to 2013 resulted primarily from an increase in operating profitability.

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

|   | Fiscal Year Ended |               |
|---|-------------------|---------------|
|   | 2014              | 2013          |
| Net income, as reported                   | \$ 18,643,000     | \$ 1,565,000  |
| Interest expense                          | 33,000            | 248,000       |
| Income taxes                              | (10,821,000)      | 60,000        |
| Depreciation and amortization             | 1,136,000         | 926,000       |
| EBITDA                                    | 8,991,000         | 2,799,000     |
| Non-cash compensation expense             | 1,124,000         | 379,000       |
| Forgivable loan amortization              | 243,000           | 349,000       |
| Loss on investment in unaffiliated entity | -                 | 162,000       |
| Non-cash settlement costs                 | -                 | 313,000       |
| EBITDA, as adjusted                       | \$ 10,358,000     | \$ 4,002,000* |

\*revised from \$4,103,000 due to a reclassification of certain taxes that should not have been included in Income taxes.

EBITDA, as adjusted for non-cash compensation expense, forgivable loan amortization, loss on investment in unaffiliated entity and loss on disposition of joint venture and non-cash settlement costs, is a key metric we use in evaluating our business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC.



**Liquidity and Capital Resources**

|  | Ending Balance |              | Average Balance |              |
|--|----------------|--------------|-----------------|--------------|
|  | September 30,  |              | during fiscal   |              |
|  | 2014           | 2013         | 2014            | 2013         |
| Cash   | \$24,465,000   | \$19,985,000 | \$22,225,000    | \$13,959,000 |
| Receivables from broker-dealers and clearing organizations | 4,985,000      | 4,296,000    | 4,641,000       | 3,973,000    |
| Securities owned – at fair value                           | 1,061,000      | 467,000      | 764,000         | 582,000      |
| Accounts payable, accrued expenses and other liabilities   | 19,290,000     | 13,576,000   | 16,667,000      | 12,623,000   |
| Convertible notes payable excluding debt discount          | -              | -            | -               | 3,400,000    |
| Subordinated borrowings                                    | -              | -            | -               | 500,000      |

At September 30, 2014 and 2013, 47% and 84%, respectively, of our total assets consisted of cash, 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.

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

Each of National Securities and vFinance Investments is subject to the Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. During 2014, pursuant to a directive from FINRA, National Securities changed from using the alternative method of computing net capital to the aggregate indebtedness method. At September 30, 2014, National Securities had net capital of \$8,698,839 which was \$6,682,242 in excess of its required net capital of \$2,016,597. At September 30, 2014, vFinance Investments had net capital of \$3,242,156 which was \$2,242,156 in excess of its required net capital of \$1,000,000. National Securities' and vFinance Investments' percentage of aggregate indebtedness to net capital was 347.7% and 73.2%, respectively. Each of National Securities and vFinance Investments claims exemption from the provisions of the Rule pursuant to paragraph (k)(2)(ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

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

compliance with the rules governing dividend payments and other equity withdrawals.

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

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

Our primary sources of liquidity include the sale of our securities and other financing activities and our cash flow from operations. We believe that we have sufficient funds from operations to fund our ongoing operating requirements through at least 2015. However, we may need to raise funds to enhance our working capital and for strategic purposes.

At September 30, 2014, National Holdings Corporation had no interest-bearing debt.

On October 15, 2013, we satisfied \$5.4 million of certain of Gilman's outstanding liabilities from cash on hand and from the net proceeds received from the sale of common stock in August 2013.

We do not have any material commitments for capital expenditures. We routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have amounted to \$204,000 and \$241,000 during fiscal years 2014 and 2013, respectively.

|  | Year ended September 30, |              |
|--|--------------------------|--------------|
|  | 2014                     | 2013         |
| <b>Cash flows from operating activities</b>                        |                          |              |
| Net Income   | \$18,634,000             | \$1,565,000  |
| Non-cash adjustments   |                          |              |
| Depreciation and amortization                                      | 1,136,000                | 922,000      |
| Deferred tax benefit   | (11,925,000)             | -            |
| Amortization of advances to registered representatives             | 243,000                  | 349,000      |
| Stock-based compensation   | 1,124,000                | 379,000      |
| Other  | 134,000                  | 179,000      |
| Changes in operating assets and liabilities                        |                          |              |
| Receivables from clearing organizations, broker-dealers and others | (1,435,000 )             | (1,722,000 ) |
| Accounts payable and accrued expenses and other liabilities        | (554,000 )               | 1,911,000    |
| Other  | 1,073,000                | (69,000 )    |
| Net cash provided by operating activities                          | 8,430,000                | 3,514,000    |
| Cash flows from investing activities                               |                          |              |
| Cash acquired at acquisition                                       | 1,654,000                | -            |
| Purchase of fixed assets   | (204,000 )               | (241,000 )   |
| Net cash provided by (used in) investing activities                | 1,450,000                | (241,000 )   |
| Cash flows from financing activities                               |                          |              |
| Proceeds from (Repayment) of subordinated borrowings, net          | -                        | (1,000,000 ) |
| Repayment of certain liabilities of acquired entity                | (5,400,000 )             | -            |
| Repayment of notes and convertible notes payable                   | -                        | (1,800,000 ) |
| Proceeds from issuance of common stock                             | -                        | 11,578,000   |
| Net cash (used in) provided by financing activities                | (5,400,000 )             | 8,778,000    |
| Net increase in cash   | \$4,480,000              | \$12,051,000 |

*Year ended September 30, 2014*

The increase in receivables from clearing organizations, broker-dealers and others at September 30, 2014 as compared to September 30, 2013 is primarily due to the higher revenues in September 2014 as compared to September 2013 revenues. These receivables are typically received within 30 days of the close of the month. Changes in securities owned (some of which are received as compensation from investment banking deals) are primarily due to a general increase in marketable securities held for trading purposes during fiscal year 2014.



Cash provided by investing activities during fiscal year 2014 amounted is primarily attributable to cash acquired at acquisition of Gilman, offset by recurring purchases of computer equipment.

Cash used in financing activities during fiscal year 2014 consists of our repayment of certain liabilities of Gilman

*Year ended September 30, 2013*

The increase in receivables from clearing organizations, broker-dealers and others at September 30, 2013 as compared to September 30, 2012 is primarily due to the higher revenues in September 2013 as compared to September 2012 revenues. These receivables are typically received within 30 days of the close of the month. The increase in accounts payable, accrued expenses and other liabilities at September 30, 2013 as compared to September 30, 2012 is primarily due to the higher commissions payable consistent with the revenues in September 2013 as compared to September 2012 revenues.

Cash used in investing activities during fiscal 2013 amounted to \$241,000 and primarily consisted of recurring purchases of computer equipment.

Cash provided by financing activities during fiscal 2013 consists of net proceeds from issuance of shares of our common stock in two placements which generated net proceeds of \$11,578,000 which were partly used to satisfy our remaining obligations under certain convertible notes payable and subordinated borrowings amounting to \$1,800,000 and \$1,000,000, respectively.

*Operating cash flows from period to period*

Our cash flows from operating activities increased to \$8,430,000 from \$3,514,000 for fiscal years 2014 and 2013, respectively. Such increase is primarily attributable to the following:

Greater revenues offset by related expenses, such as broker commission payable during the respective periods;

Aforementioned changes in assets and liabilities during the respective periods.

## **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.

## **Off-Balance Sheet Arrangements**

The Company does not have any off-balance-sheet arrangements (as defined in Regulation S-K 303(a)(4)(ii)) that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 requires the netting of unrecognized tax benefits against a deferred tax asset for the loss or other carryforward that would apply in settlement of the uncertain tax positions. The new guidance will be effective for the Company beginning October 1, 2014. We believe that the new guidance will not have any material impact on the Company’s financial statements.

In April 2014, the FASB issued ASU 2014-08, which changes the requirements for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. ASU 2014-08, which is to be applied prospectively to all new disposals of components and new classifications as held for sale, will become effective in annual periods beginning on or after December 15, 2014 and interim periods within those annual periods with early adaption allowed. We do not anticipate that the adoption of ASU 2014-08 will have a material impact on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which completes the joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and the International Financial Reporting Standards. ASU 2014-09 will become effective for us beginning October 1, 2017 and early adoption is not permitted. We are currently evaluating the potential impact of ASU 2014-09 on the Company’s financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 will become effective for us beginning October 1, 2016 and early adoption is permitted. We do not anticipate that the adoption of ASU 2014-08 will have a material impact on our financial statements.

**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 fair values of the Company's securities owned and securities sold, but not yet purchased as of September 30, 2014:

|                               | Securities       |  |
|-------------------------------|------------------|--|
|                               | Securities owned | Securities sold, but not yet purchased |
| Corporate stocks              | \$256,000        | \$ 55,000                              |
| Municipal bonds               | 696,000          |  |
| Restricted stock and warrants | 109,000          | -                                      |
| Total                         | \$1,061,000      | \$ 55,000                              |



**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**

None.

**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 Exchange Act, are recorded, processed, summarized and reported within the time period specified by the SEC'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 chief financial 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 chief executive officer and chief 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.

#### Management's Annual Report on Internal Control over Financial Reporting

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

The Company's management conducted an evaluation of the effectiveness of its internal controls over financial reporting, as of September 30, 2014, 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, the Company's chief executive officer and chief financial officer concluded that the Company's internal controls over financial reporting was effective as of September 30, 2014.

Management believes that a controls system, no matter how well designed and operated, cannot 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 Exchange Act or otherwise subject to the liabilities of that Section.

This Annual Report on Form 10-K 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 SEC rules that permit us to provide only management's report in this Annual Report on Form 10-K.

#### Internal Controls over Financial Reporting:

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

There is no other information to be disclosed by the Company during the fourth quarter of fiscal year 2014 that has not been reported on a current report on Form 8-K.

**PART III****Item 10. DIRECTORS EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The names of our current directors and executive officers and their ages, positions, the class and year in which our each of our director's term expires, biographies and outside directorships are set forth below. Also included for our directors is information regarding their specific experience, qualifications, attributes and skills that led to the conclusion that each director should serve on our Board. Our executive officers are appointed by, and serve at the discretion of, our Board. This information is as of December 22, 2014:

| <u>Name</u>                    | <u>Age</u> | <u>Positions Held</u>                             | <u>Class and Year in Which Term Expires</u> |
|--------------------------------|------------|---|---|
| Robert B. Fagenson (5)(7)      | 66         | Executive Co-Chairman                             | Class I, 2017                               |
| Mark D. Klein (4)(5) (7)       | 52         | Executive Co-Chairman and Chief Executive Officer | Class II, 2015                              |
| Mark Goldwasser (5)            | 55         | President and Director                            | Class III, 2016                             |
| Richard Abbe (3)(6)            | 45         | Director  | Class III, 2016                             |
| James Ciocia                   | 57         | Director  | Class I, 2017                               |
| Salvatore Giardina (1)(2)(3)   | 52         | Director  | Class III, 2016                             |
| William Lerner (2)(3)(4)(6)    | 74         | Director  | Class I 2017                                |
| Frank S. Plimpton (1)(2)(3)(6) | 60         | Director  | Class II, 2015                              |
| Frederic B. Powers III (3)(6)  | 48         | Director  | Class II, 2015                              |
| Joshua Silverman (1)(6)        | 44         | Director  | Class I, 2017                               |
| Frederick Wasserman (1)(2)     | 60         | Director  | Class I, 2017                               |
| Alan B. Levin                  | 51         | Chief Financial Officer                           |   |

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(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee

(4) Member of Nominating Committee

(5) Member of the Executive Committee

(6) Member of the Strategy Committee

It is anticipated that Mr. Klein will resign as Executive Co-Chairman, Chief Executive Officer and a director of the Company immediately following the filing of this Annual Report. Pursuant to the Company's Amended and Restated Bylaws, Mr. Fagenson will assume the position of Chief Executive Officer following Mr. Klein's resignation.

**Robert Fagenson** has been a member of our Board since March 2012 and has served as Executive Co-Chairman since July 2012. Mr. Fagenson has spent the majority of his career at the New York Stock Exchange, where he was Managing Partner of one of largest specialist firms operating on the exchange trading floor. Having sold his firm and subsequently retired from that business in 2007, he has been CEO of Fagenson. & Co., Inc., a 50 year old broker dealer that engaged in institutional brokerage as well as investment banking and money management. On March 1, 2012, Fagenson. & Co., Inc. transferred its brokerage operation, accounts and personnel to National Securities Corporation and operates as a branch office of that firm. During his career as a member of the New York Stock Exchange beginning in 1973, he has served as a Governor on the trading floor and was elected to the NYSE Board of Directors in 1993, where he served for six years, eventually becoming Vice Chairman of the Board in 1998 and 1999. He returned to the Board in 2003 and served until the Board was reconstituted with only non-industry directors in 2004. Mr. Fagenson has served on the boards of a number of public companies and presently is the Non-Executive Chairman of Document Security Systems, Inc. (NYSE MKT - DMC) and a member of the Board of Cash Technologies Corp. He is also a Director of the National Organization of Investment Professionals (NOIP). In addition to his business related activities, Mr. Fagenson, serves as Vice President and a Director of New York Services for the Handicapped, Treasurer and Director of the Centurion Foundation, Director of the Federal Law Enforcement Officers Association Foundation, Treasurer and Director of the New York City Police Museum and as a Member of the Board of the Sports and Arts in Schools Foundation. He is a Member of the alumni boards of both the Whitman School of Business and the Athletic Department at Syracuse University. He also serves in a voluntary capacity on the boards and committees of many civic, social and community organizations. Mr. Fagenson received his B.S. degree in Transportation Sciences & Finance from Syracuse University in 1970. Our Board of Directors believes that Mr. Fagenson's extensive experience in serving on boards of directors and his leadership experience he gained by serving as Chief Executive Officer of Fagenson & Co., Inc., as well as his extensive knowledge of public company governance derived from his many years of service on the board of and as vice chairman of The New York Stock Exchange, qualifies him to serve on our Board of Directors.

**Mark D. Klein** has been a member of our Board of Directors since March 2012. Mr. Klein has served as Executive Co-Chairman since July 2012 and as Chief Executive Officer since January 2013. Mr. Klein has served as a member of the board of directors of GSV Capital Corp. since 2011. Mr. Klein also served as a director of New University Holdings Corp., a capital pool company listed on the TSX Venture Exchange, since its inception in 2010 through August 2011, when New University Holdings merged with ePals, Inc., the world's largest K-12 learning network provider. In addition, from April 2010 until May 2011, Mr. Klein served as the Chief Executive Officer, President and a Director of 57th Street General Acquisition Corp, a special purpose acquisition company, until it completed a merger with Crumbs Bake Shop, Inc. Mr. Klein served as a Director of Crumbs from 2011 to 2014. Between 2007 and 2009, Mr. Klein served as the Chief Executive Officer, President and a Director of Alternative Asset Management Acquisition Corporation, a special purpose acquisition company he helped form in 2007, and which completed a merger with Great American Group LLC. Mr. Klein continues to serve on the Board of Directors of Great American Group. From 2007 until 2008, Mr. Klein served as the Chief Executive Officer of Hanover Group US LLC, an indirect US subsidiary of the Hanover Group. Prior to joining Hanover in 2007, Mr. Klein served as Chairman of Ladenburg Thalmann & Co. Inc. From March 2005 to September 2006, he was Chief Executive Officer and President of Ladenburg Thalmann Financial Services, Inc., the parent of Ladenburg Thalmann & Co. Inc., and Chief Executive Officer of Ladenburg Thalmann Asset Management Inc., a subsidiary of Ladenburg Financial Services, Inc. Prior to joining Ladenburg Thalmann, from June 2000 to March 2005, Mr. Klein served as the Chief Executive Officer and President of NBGI Asset Management, Inc. and NBGI Securities, which were the US subsidiaries of the National Bank of Greece. Mr. Klein has been a portfolio manager of the LTAM Titan Fund, a fund of funds hedge fund, since 2004. Mr. Klein is also a Managing Member and Majority Partner of M. Klein & Company, LLC, which owns the Klein Group, LLC, a registered broker dealer. Mr. Klein also maintains registration with the Klein Group, LLC as a registered representative and Principal. Mr. Klein is a graduate of the J.L. Kellogg Graduate School of Management at Northwestern University, with a Masters of Management Degree, and also received a Bachelor's of Business Administration Degree with high distinction from Emory University. Our Board of Directors has concluded that Mr. Klein's extensive familiarity with the financial and investment banking industries and experience as a director of other publicly-traded companies provides our Board of Directors with valuable insight and perspective, and that therefore he is qualified to serve as a member of our Board of Directors.

**Mark Goldwasser** has served as a member of our Board since December 2001. Mr. Goldwasser joined National in June 2000. Mr. Goldwasser has served as our President since January 2013. From August 2000 to July 2008 Mr. Goldwasser also served as our President. From December 2001 to January 2013 he served as our Chief Executive Officer and from April 2005 to March 2012 he served as our Chairman. Prior to joining National, Mr. Goldwasser was the Global High Yield Sales Manager at ING Barings from 1997 to 2000. From 1995 to 1997, Mr. Goldwasser was the Managing Director of High Yield Sales at Schroders & Co., and from 1991 to 1995, the Vice President of Institutional High Yield Sales at Lazard Freres & Co. From 1984 to 1991, Mr. Goldwasser served as the Associate Director of Institutional Convertible Sales and Institutional High Yield Sales at Bear Stearns & Co., Inc. From 1982 to 1984, Mr. Goldwasser was a Floor member of the New York Mercantile Exchange (NYMEX) and the Commodity Center (COMEX). Mr. Goldwasser received his B.A. with Honors from the University of Capetown in 1979. Our Board of Directors believes that Mr. Goldwasser's extensive experience in the broker dealer industry, as well as his extensive knowledge of all aspects of our business that he gained in previously serving as our Chief Executive Officer, qualifies him to serve on our Board of Directors.

**Richard Abbe** is the Co-founder, and is a Principal and Managing Partner of Iroquois Capital Management, LLC, the Registered Investment Advisor to Iroquois Capital LP and Iroquois Capital (offshore) Ltd. (collectively, "Iroquois

Capital"). Mr. Abbe has served as Co-Chief Investment Officer of Iroquois Capital since inception in 2003. Previously, Mr. Abbe co-founded and served as Co-Chief Investment Officer of Vertical Ventures, LLC, a merchant bank. Prior to that, he was employed by Lehman Brothers and served as Senior Managing Director at Gruntal & Company, LLC, where he also served on the firm's Board of Directors. Mr. Abbe also previously served as Founding Partner at Hampshire Securities. Our Board of Directors believes that Mr. Abbe's extensive knowledge of the capital markets and experience in matters involving corporate governance qualifies him to serve on our Board of Directors.

**James Ciocia** has served as a member of our Board since October 2013. He was a principal founder of Gilman Ciocia, Inc. having opened its first tax preparation office in 1981 and serving as its Chief Executive Officer from 1981 until November 6, 2000. Mr. Ciocia holds a B.S. in Accounting from St. John's University. Mr. Ciocia brings to the board of directors extensive business and operating experience as well as insights into and experiences within the tax preparation and financial planning industry.

**Salvatore Giardina** has served as a member of our Board since October 2012. He has served as Chief Financial Officer of Pragma Securities LLC and its holding company, Pragma Weeden Holdings LLC, since 2009. From 2006 through 2008, Mr. Giardina served as S.V.P. and Chief Financial Officer of G-Trade Services LLC and ConvergeX Global Markets LLC. From 2002 through 2006, Mr. Giardina served as V.P. and Chief Financial Officer of Ladenburg Thalmann Financial Services Inc., the publicly-traded holding company of Ladenburg Thalmann & Co., Inc., where Mr. Giardina served as its E.V.P. and Chief Financial Officer from 1998 through 2006 and as its Controller from 1990 through 1998. From 1983 through 1990, Mr. Giardina was an auditor with the national public accounting firm of Laventhol & Horwath. Mr. Giardina is a certified public accountant and is Series 27 registered. Mr. Giardina earned his Bachelor of Business Administration degree from Pace University in 1983. Our Board of Directors believes that Mr. Giardina's extensive financial expertise and his practical and management experience in public accounting and securities broker-dealers qualifies him to serve on our Board of Directors. Mr. Giardina also serves as our Audit Committee financial expert.

**William Lerner** has served as a member of our Board since March 2013. For over the last five years, Mr. Lerner has been engaged in the private practice of corporate and securities law in New York and Pennsylvania. Since 2006, Mr. Lerner has served as a director/trustee of The Daily Income Fund, a diversified, open-end management investment company, and also serves on its Compensation Committee and is the Chairman of the Compliance and Risk Committee. Mr. Lerner also served as Branch Chief of the Enforcement Division at the SEC and a former officer and director of compliance at the American Stock Exchange. Our Board of Directors believes that Mr. Lerner's perspective as a non-management director and his experience as a corporate lawyer with substantial experience and insight into matters relating to the SEC and the securities markets qualifies him to serve on our Board of Directors.

**Frank S. Plimpton** has served as a member of our Board since June 2010. Mr. Plimpton has over 30 years of experience in reorganizations, investment banking and private equity investing. Mr. Plimpton served as a partner of Matlin Patterson Global Advisors LLC from its inception in July 2002 through 2008, and was a member of its predecessor, the Distressed Securities Group at Credit Suisse First Boston from 1998-2002. Mr. Plimpton worked as a distressed investor with Smith Management Company (1991-1995), Pegasus Financial (1995-1996) and Wexford Capital Advisors (1996-1998); as an M&A/restructuring investment banker with PaineWebber Incorporated (now part of UBS, 1984-1989) and Solomon Brothers, Inc. (now part of Citicorp, 1989-1991); and as a Chapter 11 bankruptcy lawyer with Milbank, Tweed, Hadley & McCloy (1981-1984). Mr. Plimpton is a former director of Broadpoint Gleacher Securities, Inc. (now Gleacher & Co.), XLHealth Corporation, Renewable BioFuels, LLC, and NorthernStar Natural Gas, LLC. Mr. Plimpton holds a BA in Applied Mathematics and Economics from Harvard College (*cum laude*, 1976). Mr. Plimpton received a law degree from the University of Chicago Law School (1981), and an MBA (1980) from the University of Chicago Booth School of Business. Our Board of Directors believes that Mr. Plimpton's extensive experience in private equity, reorganizations, investment banking and investing qualifies him to serve on our Board of Directors.

**Frederic B. Powers III**, has served as a member of our Board since March 2013. Since June 2012, Mr. Powers has served as Managing Director of Powers Private Equity LLC – Family Office, a company that makes direct investments in public and private companies. From 1989 to May 2012, Mr. Powers served in various capacities, including President and Executive Vice President, at Powers Fasteners, Inc., a global manufacturer and distributor of construction products to the professional market. Our Board of Directors believes that Mr. Powers' perspective as a non-management director and as an investors, as well as his 23 years' executive level experience he gained by serving as President and Executive Vice President of a multinational corporation qualifies him to serve on our Board of Directors.

**Joshua Silverman** is the Co-founder, and is a Principal and Managing Partner of Iroquois Capital Management, LLC, the Registered Investment Advisor to Iroquois Capital LP and Iroquois Capital (Offshore) Ltd. (collectively, "Iroquois"). Mr. Silverman has served as Co-Chief Investment Officer of Iroquois since inception in 2003. From 2000 to 2003, Mr. Silverman served as Co-Chief Investment Officer of Vertical Ventures, LLC, a merchant bank. Prior to forming Iroquois, Mr. Silverman was a Director of Joele Frank, a boutique consulting firm specializing in mergers and acquisitions. Previously, Mr. Silverman served as Assistant Press Secretary to The President of The United States. Mr. Silverman received his B.A. from Lehigh University in 1992. Our Board of Directors believes that Mr. Silverman's extensive experience investing in public and private companies and solving company inefficiencies as they relate to corporate structure, cash flow and management qualifies him to serve on our Board of Directors.



**Frederick Wasserman** has served as a member of our Board since October 2013. He served as a director of Gilman Ciocia, Inc. from September 2007 under October 2013. Since May 2008, Mr. Wasserman has served as the President of FGW Partners, LLC, which provides management and financial consulting services. From January 2007 until April 2008, Mr. Wasserman provided management and financial consulting services as a sole practitioner. From August 2005 until December 31, 2006, Mr. Wasserman served as the Chief Operating and Chief Financial Officer for Mitchell & Ness Nostalgia Co., a privately-held manufacturer and distributor of licensed sportswear and authentic team apparel. Prior to his employment at Mitchell & Ness, Mr. Wasserman served as the President of Goebel of North America, a U.S. subsidiary of W. Goebel Porzellanfabrik GmbH & Co., an international manufacturer of collectibles, gifts and home decor. Mr. Wasserman held several positions, including Chief Financial Officer and President with Goebel of North America from 2001 to 2005. Mr. Wasserman is non-executive Chairman of the Board and audit committee member for DHL Holdings Corp. (formerly TeamStaff, Inc.), a provider of government logistics services. Mr. Wasserman is also a director and Chairman of the audit committee of MAM Software Group Inc., a provider of software products for the automobile aftermarket, director, Chairman of the compensation committee and audit committee member of Acme Communications, Inc., an owner and operator of television stations, and director, Chairman of the audit committee and compensation committee member of Breeze-Eastern Corporation, a manufacturer and distributor of cargo and rescue lifting equipment. Mr. Wasserman also serves as a member of the board of directors of SMTC Corporation, a global Electronics Manufacturing Services provider, based in Toronto, Canada, is the Chairman of their audit committee and serves on their compensation and nominating committees. Mr. Wasserman received a B.S. degree in Economics from The Wharton School of the University of Pennsylvania in 1976. As the President of a management and financial consulting services firm, and former Chief Financial Officer, Chief Operating Officer and President of several public and private companies, Mr. Wasserman brings to our board a great deal of experience as an active member of a number of public company boards as well as a deep understanding of the financial and operational aspects of a business.

**Alan B. Levin**, has been our Chief Financial Officer since the merger with vFinance, Inc. in July 2008. Prior to that, he served as Chief Financial Officer of vFinance since January 2007. Prior to that date, he served as its Interim Chief Financial Officer since July 2006 and its Controller since June 2005. Prior to joining vFinance, Mr. Levin served as Chief Financial Officer for United Capital Markets, Inc. from September 2000 to January 2005. Mr. Levin has over 14 years of experience in the brokerage industry serving as a Financial and Operations Principal and 24 years of experience serving in accounting management roles in various industries. He received a B.S. degree in Economics with a concentration in Accounting from Southern Connecticut State University in New Haven, Connecticut in 1986.

### **Family Relationships**

There are no family relationships among our executive officers and directors.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Such persons are required by the SEC to furnish the Company with copies of all Section 16(a) forms that they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations from certain reporting persons, all required Section 16(a) filings applicable to its directors, executive officers and greater-than-ten-percent beneficial owners were properly filed during the fiscal year ended September 30, 2014.

### **Code of Ethics and Business Conduct**

We have adopted the National Holdings Corporation Code of Ethics and Business Conduct (the "Code of Conduct"), a code of conduct that applies to our directors, officers and employees. The Code of Conduct was filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended September 30, 2003, and is publicly available on the SEC's website at [www.sec.gov](http://www.sec.gov). If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver from a provision of the Code of Conduct to our directors or executive officers, we will disclose the nature of such

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, and persons performing similar functions. The Code of Ethics is incorporated herein by reference.

### **Change in Procedures for Recommending Directors**

There have been no material changes to the procedures by which our stockholders may recommend nominees to our Board from those procedures set forth in our Proxy Statement for our 2014 Annual Meeting of Stockholders, filed with the SEC on July 1, 2014.

### ***Audit Committee***

The Audit Committee consists of Salvatore Giardina, Frank Plimpton, Joshua Silverman and Frederick Wassermann. Each committee member is financially literate and meets the current independence requirements for Audit Committee membership under both the rules of the SEC and The Nasdaq Stock Market. Under SEC rules, companies are required to disclose whether their audit committees have an “audit committee financial expert” as defined in Item 407(d) of Regulation S-K under the Exchange Act. The Board of Directors has determined that Salvatore Giardina is a financial expert.

**Item 11. EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth the cash compensation paid by us to each of Mark D. Klein, Mark H. Goldwasser and Alan B. Levin (collectively the “Named Executive Officers”) during the fiscal years ended September 30, 2014 and 2013:

| Name and Capacity                      | Year | Salary    | Bonus     | Equity                      | Other                       | Total        |
|--|------|-----------|-----------|-----------------------------|-----------------------------|--------------|
|  |      |           |           | Compensation <sup>(2)</sup> | Compensation <sup>(3)</sup> | Compensation |
| Mark D. Klein                          | 2014 | \$200,000 | \$260,666 | \$ 303,996                  | \$ -                        | \$ 764,662   |
| Chief Executive Officer <sup>(1)</sup> | 2013 | \$1       | \$-       | \$ 66,874                   | \$ -                        | \$ 66,875    |
| Mark H. Goldwasser                     | 2014 | \$440,000 | \$372,500 | \$ 41,690                   | \$ 29,838                   | \$ 884,028   |
| Chief Executive Office                 | 2013 | \$414,201 | \$160,667 | \$ 14,961                   | \$ 27,216                   | \$ 617,045   |
| Alan B. Levin                          | 2014 | \$193,500 | \$60,000  | \$ -                        | \$ 15,762                   | \$ 269,262   |
| Chief Financial Officer                | 2013 | \$192,228 | \$36,005  | \$ 6,416                    | \$ 13,140                   | \$ 247,789   |

It is anticipated that Mr. Klein will resign as Executive Co-Chairman, Chief Executive Officer and a director of the Company immediately following the filing of this Annual Report. Pursuant to the Company’s Amended and Restated Bylaws, Robert Fagenson, Executive Co-Chairman of the Company, will assume the position of Chief Executive Officer following Mr. Klein’s resignation.

<sup>(1)</sup> Restated Bylaws, Robert Fagenson, Executive Co-Chairman of the Company, will assume the position of Chief Executive Officer following Mr. Klein’s resignation.

<sup>(2)</sup> The amount shown in this column represents the grant date fair value of options awards as determined pursuant to ASC 718.

<sup>(3)</sup> Represents perquisite payments for auto allowance, club memberships and certain insurance premiums as follows:

|                        | Fiscal Year End |          |
|------------------------|-----------------|----------|
|                        | 2014            | 2013     |
| <b>Mark D. Klein</b>   |                 |          |
| Auto Allowance         | \$-             | \$-      |
| Club membership        | -               | -        |
| Insurance Premiums     | -               | -        |
|                        | \$-             | \$-      |
| <b>Mark Goldwasser</b> |                 |          |
| Auto Allowance         | \$12,000        | \$12,000 |
| Club membership        | 2,076           | 2,076    |
| Insurance Premiums     | 15,762          | 13,140   |
|                        | \$29,838        | \$27,216 |

Alan B. Levin

|                    |          |          |
|--------------------|----------|----------|
| Auto Allowance     | \$-      | \$-      |
| Club membership    | -        | -        |
| Insurance Premiums | 15,762   | 13,140   |
|                    | \$15,762 | \$13,140 |

## **Narrative Disclosure to Summary Compensation Table**

### ***Employment Agreements***

#### *Mark D. Klein*

On June 7, 2013, National entered into a Co-Executive Chairman and Chief Executive Officer Compensation Plan (the "Klein Agreement") with Mark D. Klein, providing for the terms of his employment as Co-Executive Chairman and Chief Executive Officer for a period beginning January 25, 2013 and ending on September 30, 2015. Mr. Klein initially received a base salary \$1.00 per annum. From and after September 30, 2013, Mr. Klein's base salary for the remainder of his term shall be as determined by the Compensation Committee (the "Compensation Committee") of our board of directors (with advice (as appropriate) from the board of directors of National), who shall review Mr. Klein's base salary no less frequently than each fiscal year. Mr. Klein will be eligible for an annual bonus for each fiscal year of the term as determined by the Compensation Committee. During the Term, Mr. Klein will serve as a member of the Executive Committee of National.

Mr. Klein received a grant of fully vested, nonforfeitable, nonqualified stock options to purchase 5,700,000 shares of our common stock, of which (i) options to purchase 1,900,000 shares of common stock have an exercise price of \$0.50 per share; (ii) options to purchase 1,900,000 shares of common stock have an exercise price of \$0.70 per share; and (iii) options to purchase 1,900,000 shares of common stock have an exercise price of \$0.90 per share. The options expire on December 31, 2017.

On June 6, 2014, National entered into an amendment to the Klein Agreement pursuant to which , among other things, from June 6, 2014 to November 15, 2014, Mr. Klein agreed that the executive committee (the "Executive Committee") of the board of directors of the Company will be comprised of Mark Klein, Robert Fagenson and Mark Goldwasser and Mr. Goldwasser's service on the Executive Committee will automatically expire on November 15, 2014 or his earlier termination of his employment with National.

On September 23, 2014, National and Mr. Klein entered into a second amendment (the "Second Amendment") to the Klein Agreement. Pursuant to the Second Amendment, among other things,

The term of Mr. Klein's employment will expire at the close of business on December 31, 2014 instead of September 30, 2015 (the "Klein Term").

During the remainder of the Klein Term, Mr. Klein agreed that the Executive Committee will be comprised of Mr. Klein, Robert B. Fagenson and Mark Goldwasser.

Mr. Klein's employment under the Employment Agreement may only be terminated prior to its scheduled expiration as follows: (i) by the Company without cause, (ii) by the Company for cause, (iii) by the Company due to "disability", (iv) by Mr. Klein for any or no reason, or (v) due to Mr. Klein's death. In the event of any termination of Mr. Klein's employment, including the expiration of the Klein Term on December 31, 2014, Mr. Klein will receive only the accrued and the rights regarding the sign on grant.

The option term of the fully vested, nonforfeitable, nonqualified stock options to purchase 5,700,000 shares of common stock of the Company granted to Mr. Klein on June 7, 2013 will expire on September 30, 2020 and the sign on grant will be exercisable at any time during the option term; provided, that the option term will expire on the three year anniversary of any termination of Mr. Klein's employment that is (i) a termination by the Company for Cause, (ii) a termination by Mr. Klein for any or no reason, and (iii) a termination due to expiration of the Klein Term on December 31, 2014.

The definition of cause under the Employment Agreement was amended to provide only for the conviction of Mr. Klein or plea of guilty or nolo contendere in each case prior to December 31, 2014 to a felony or other crime involving moral turpitude carrying mandatory jail time of more than twelve (12) months.

The definition of good reason under the Employment Agreement was amended to provide that it shall have no operative effect under the Klein Agreement.

Mr. Klein will not be eligible for severance benefits.

Mr. Klein agreed not to stand for re-election as a member of the Board of Directors of the Company at its next annual meeting of shareholders; provided, however, that Mr. Klein agreed to resign as a director of the Company on the earlier of (i) March 31, 2015, or (ii) immediately prior to the date of the next annual meeting of shareholders.

In the event of any termination of the Klein Agreement, Mr. Klein will be entitled to receive (i) any accrued but unpaid base salary through the date of termination; (ii) any unpaid or unreimbursed expenses incurred in accordance with our policy or the Agreement, to the extent incurred on or prior to the date of termination; (iii) any benefits provided under our benefit plans upon termination of the Mr. Klein's employment, in accordance with the terms therein; (iv) any unpaid bonus in respect to any completed fiscal year that has ended on or prior to the date of termination; and (v) any rights to indemnification by virtue of Mr. Klein's position as an officer or director of National or its subsidiaries and the benefits under any directors' and officers' liability insurance policy maintained by National, in accordance with its terms thereof and the Agreement.

It is anticipated that Mr. Klein will resign as Executive Co-Chairman, Chief Executive Officer and a director of the Company immediately following the filing of this Annual Report. Pursuant to the Company's Amended and Restated Bylaws, Robert Fagenson, Executive Co-Chairman of the Company, will assume the position of Chief Executive Officer following Mr. Klein's resignation.

*Mark H. Goldwasser*

On July 1, 2008, concurrent with the closing of the merger of National and vFinance, Inc., Mark Goldwasser entered into a five-year employment agreement with us, pursuant to which Mr. Goldwasser was entitled to receive an annual base salary of \$450,000, which will increase 5% per year, and an automobile expense allowance of \$1,000 per month.

On November 23, 2009, Mr. Goldwasser's employment agreement was amended to revise the bonus payable under such agreement. As revised, for the fiscal year beginning October 1, 2009, the bonus was payable quarterly in an amount equal to seven and one-half (7.5%) percent of our annual Adjusted EBITDA (as defined below) in excess of \$1,500,000 (of which 50% will be paid as soon as practicable in cash after the end of each fiscal quarter ("Paid Portion"), and 50% will accrue until the conclusion of the fiscal year ("Accrued Portion")).

Mr. Goldwasser was eligible to such additional bonuses as our board of directors determined based upon the Board's assessment of his performance in the various areas, which bonuses may have been paid in cash and/or our common stock at the Board's discretion.

Pursuant to the employment agreement, Mr. Goldwasser was granted non-qualified stock options to purchase 1,000,000 shares of our common stock at an exercise price of \$1.64 per share, which was equal to the average of the 10-day closing market price of our common stock prior to the effective date of the employment agreement. As of September 30, 2012 all 1,000,000 shares of Mr. Goldwasser's options have vested. The options expire June 30, 2015. On June 20, 2013 these options were modified to provide that (i) such options will expire upon the earlier to occur of June 20, 2016 and 18 months from the end of his employment; and (ii)(a) 30% of the options will have an exercise price of \$0.30 per share; (b) 30% of the options will have an exercise price of \$0.40 per share; (c) 20% of the options will have an exercise price of \$0.50 per share; and (d) 20% of the options will have an exercise price of \$0.60 per share.

On June 20, 2013, we and Mr. Goldwasser entered into an amendment (the "Goldwasser Amendment") to Mr. Goldwasser's employment agreement, dated as of July 1, 2008, as amended on November 23, 2009 and November 23, 2009. Pursuant to the Goldwasser Amendment, among other things: (i) Mr. Goldwasser's base salary (1) for the fiscal year period ended September 30, 2013, shall be at the annual rate of \$400,000 per annum; (2) for the fiscal year ended September 30, 2014, shall be at the annual rate of \$440,000 per annum; and (3) for the fiscal year ended September 30, 2015, shall be at the annual rate of \$460,000 per annum; (ii) the term of Mr. Goldwasser's employment shall end on September 30, 2015; (iii) for fiscal year ending September 30, 2013 all other bonus plans shall be replaced by a quarterly bonus plan based on 9% of the positive adjusted EBITDA (as defined in the Employment Agreement) reported by us with a maximum of \$40,000 earned in any quarter; (iv) all bonuses for fiscal years ending September 30, 2014 and September 30, 2015 shall be at the discretion of the board of directors of National; (v) Mr. Goldwasser will not be entitled to any Severance Amount (as defined in his employment agreement and Termination Year Bonus (as defined in his employment agreement); and (vi) if his employment agreement is not extended, Mr. Goldwasser



shall be entitled to \$400,000 payable pro rata over a twelve month period beginning October 1, 2015.

In addition, on June 20, 2013, Mr. Goldwasser received a grant of nonforfeitable, nonqualified stock options to purchase 1,500,000 shares of our common stock under our 2013 Omnibus Stock Incentive Plan, of which (i) options to purchase 500,000 shares of our common stock vested immediately, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90; (ii) options to purchase 500,000 shares of our common stock will vest on June 20, 2014, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90; and (iii) options to purchase 500,000 shares of our common stock will vest on June 20, 2015, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90. The options expire on September 30, 2020.

*Robert B. Fagenson*

On June 20, 2013, National entered into a Co-Executive Chairman Compensation Plan (the "Fagenson Agreement") with Robert B. Fagenson, providing for the terms of his employment as Co-Executive Chairman for a period beginning January 25, 2013 and ending on September 30, 2015 (the "Fagenson Term"). Mr. Fagenson is not a Named Executive Officer. Mr. Fagenson will initially receive a base salary \$1.00 per annum. From and after September 30, 2013, Mr. Fagenson's base salary for the remainder of the Fagenson Term shall be as determined by the Compensation Committee of the board of directors of National (with advice (as appropriate) from the board of directors of National), who shall review Mr. Fagenson's base salary no less frequently than each fiscal year; provided however that his base salary for any year beginning October 1, 2013 shall not be less than \$180,000 per year. During the fiscal year ended September 30, 2014, Mr. Fagenson's base salary was \$180,000 and he receive a bonus of \$100,000. Mr. Fagenson will be eligible to an annual bonus for each fiscal year of the Term as determined by the Compensation Committee. During the Fagenson Term, Mr. Fagenson will serve as a member of the Executive Committee of National.

Mr. Fagenson received a grant of nonforfeitable, nonqualified stock options to purchase 1,500,000 shares of our common stock under our 2013 Omnibus Stock Incentive Plan, of which (i) options to purchase 500,000 shares of common stock vested immediately, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90; (ii) options to purchase 500,000 shares of common stock will vest on June 20, 2014, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90; and (iii) options to purchase 500,000 shares of common stock will vest on June 20, 2015, one third of such options have an exercise price of \$0.50, one third of such options have an exercise price of \$0.70 and one third of such options have an exercise price of \$0.90. The options expire on September 30, 2020.

In the event of any termination of the Fagenson Agreement, Mr. Fagenson will be entitled to receive (i) any accrued but unpaid base salary through the date of termination; (ii) any unpaid or unreimbursed expenses incurred in accordance with National policy or the Fagenson Agreement, to the extent incurred on or prior to the date of termination; (iii) any benefits provided under National's benefit plans upon termination of the Mr. Fagenson's employment, in accordance with the terms therein; (iv) any unpaid bonus in respect to any completed fiscal year that has ended on or prior to the date of termination; and (v) any rights to indemnification by virtue of Mr. Fagenson's position as an officer or director of National or its subsidiaries and the benefits under any directors' and officers' liability insurance policy maintained by National, in accordance with its terms thereof and the Fagenson Agreement. In the event of any Qualifying Termination (as defined in the Fagenson Agreement), Mr. Fagenson is also entitled to receive (1) a lump-sum cash payment of \$360,000 less what has been paid in salary; provided that such amount increases by 50% of what is paid pursuant to the foregoing calculation if a Qualifying Termination occurs in connection with, contingent on, or within 12 months following, a Change in Control (as defined in the Fagenson Agreement); and (2) continuation of the health benefits for a period not to exceed 18 months.

On June 6, 2014, National entered into an amendment to the Fagenson Agreement pursuant to which, among other things, from June 6, 2014 to November 15, 2014, Mr. Fagenson agreed that the Executive Committee of the Company will be comprised of Mark Klein, Robert Fagenson and Mark Goldwasser and Mr. Goldwasser's service on the Executive Committee will automatically expire on November 15, 2014 or his earlier termination of his employment with National. On November 19, 2014, the Board approved a second amendment (the "Fagenson Second Amendment") to the Fagenson Agreement to be effective as of October 31, 2014. Pursuant to the Fagenson Second Amendment, among other things, Mr. Fagenson agreed that the only other members of the executive committee of the board of directors of the Company will be Mark D. Klein and/or Mark Goldwasser.

It is anticipated that Mr. Klein will resign as Executive Co-Chairman, Chief Executive Officer and a director of the Company immediately following the filing of this Annual Report. Pursuant to the Company's Amended and Restated Bylaws, Robert Fagenson, Executive Co-Chairman of the Company, will assume the position of Chief Executive Officer following Mr. Klein's resignation.

*Alan B. Levin*

Alan Levin entered into an automatically renewing one-year employment agreement on July 1, 2008 pursuant to which he is employed as our Chief Financial Officer. Under the terms of the agreement, Mr. Levin receives an annual base salary of approximately \$200,000. The agreement renews annually for a one-year term unless either party gives notice of non-renewal. In addition to his base salary, he is entitled to receive an annual cash bonus determined in the discretion of the Compensation Committee of the board of directors based upon the assessment by the President of National of Mr. Levin's performance in the following areas: revenue, net income and revenue growth, new business development, investor relations, communications with the board of directors, and other factors including, without limitation, special projects as assigned by the Chief Executive Officer or the board of directors.

**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the outstanding option awards as of September 30, 2014 for Mark D. Klein and Mark Goldwasser. As of September 30, 2014, there were no outstanding option awards for Alan Levin.

| Name            | Options                  | Number of Securities                              |               | Option         | Option          |
|-----------------|--------------------------|---|---------------|----------------|-----------------|
|                 | Grant Date               | Underlying Unexercised Options at Fiscal Year End |               | Exercise Price | Expiration Date |
|                 |                          | Exercisable                                       | Unexercisable |                |                 |
| Mark D. Klein   | 6/7/2013                 | 1,900,000   | -             | \$ 0.50        | 12/31/2017      |
| Mark D. Klein   | 6/7/2013                 | 1,900,000   | -             | \$ 0.70        | 12/31/2017      |
| Mark D. Klein   | 6/7/2013                 | 1,900,000   | -             | \$ 0.90        | 12/31/2017      |
| Mark Goldwasser | 7/1/2008                 | 300,000   | -             | \$ 0.30        | 6/20/2016       |
| Mark Goldwasser | 7/1/2008                 | 300,000   | -             | \$ 0.40        | 6/20/2016       |
| Mark Goldwasser | 7/1/2008                 | 200,000   | -             | \$ 0.50        | 6/20/2016       |
| Mark Goldwasser | 7/1/2008                 | 200,000   | -             | \$ 0.60        | 6/20/2016       |
| Mark Goldwasser | 6/20/2013 <sup>(1)</sup> | 333,332   | 166,668       | \$ 0.50        | 6/30/2020       |
| Mark Goldwasser | 6/20/2013 <sup>(1)</sup> | 333,332   | 166,668       | \$ 0.70        | 6/30/2020       |
| Mark Goldwasser | 6/20/2013 <sup>(1)</sup> | 333,332   | 166,668       | \$ 0.90        | 6/30/2020       |

(1) One third of the option vested immediately, one-third of the option vested on June 20, 2014, and one-third of the option will vest on June 20, 2015.

**Potential Termination and Change in Control Payments***Mark Goldwasser*

If Mark Goldwasser' Employment Agreement, as amended, is not extended beyond its current term, he shall be entitled to \$400,000 payable pro rata over a twelve month period beginning October 1, 2015.

*Alan B. Levin*

Pursuant to the employment agreements governing the employment of Alan Levin, he would be entitled to compensation upon termination of their agreement by National without Cause, by the individuals for “Good Reason,” or as a result of non-renewal of the agreement by either party, or as a result of his disability or his death, or upon a change of control. According to the employment agreements: “Good Reason” means: (i) the assignment to the executive of any duties inconsistent in any material respect with the executive’s position; (ii) National’s material failure or refusal to perform any of the compensation obligations required to be performed in accordance with the agreement after a reasonable notice and an opportunity to cure same; (iii) a material diminution in title, duties, responsibilities, reporting relationship or positions; (iv) the relocation of the executive’s principal office location; (v) any decrease in salary or bonuses payable pursuant to the terms of the agreement without the executive’s written consent; and (vi) the cessation of his position for any reason without his written consent; Any one of these events shall not be deemed to constitute Good Reason if, within a 30-day notice period, the event or circumstance giving rise to Good Reason has been fully corrected by National.

“Cause” shall mean (i) the executive’s commission of a felony or other crime involving moral turpitude, or the commission of any other act or omission involving dishonesty or fraud with respect to National or any of its subsidiaries or affiliates; (ii) alcoholism or drug addiction that materially impairs the executive’s ability to perform his duties; (iii) the substantial and repeated failure to perform duties as reasonably directed by the President), after reasonable notice and an opportunity to cure same; (iv) any material breach or violation of executive’s fiduciary duty owed to National or any of its subsidiaries or affiliates; (v) acts of willful misconduct or gross negligence with respect to National or any of its subsidiaries or affiliates; (vi) any material breach of the agreement which are not cured after reasonable notice is provided; or (vii) action taken by a regulatory body or self-regulatory organization that substantially impairs the executive’s ability to perform his duties pursuant to the employment agreement.

“Change in Control” means (i) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets or stock of National (a “Business Combination”), in each case, unless, following such Business Combination, all or substantially all of the individuals or entities who were the beneficial owners, respectively, of the voting securities of National entitled to vote generally in the election of directors immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns National or all or substantially all of National’s assets either directly or through one or more subsidiaries); (ii) approval by National’s stockholders of a complete dissolution or liquidation of National; or (iii) any “person” (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of National representing 35% or more of the combined voting power of National’s then outstanding securities eligible to vote for the election of the board of directors of National.

Assuming if Mr. Levin is terminated by National without Cause, in the event of a Change in Control, by Mr. Levin for Good Reason or upon Mr. Levin’s death or disability, he would be entitled to receive (i) a severance payment equal to 50% of Mr. Levin’s prior year’s salary; (ii) all accrued obligations, and (iii) continued benefits for a period of 18 months including medical, hospitalization, dental and life insurance programs in which Mr. Levin, his spouse and dependents were participating immediately prior thereto. In the event of Mr. Levin’s termination due to Cause, without Good Reason or the non-renewal of Mr. Levin’s employment agreement, Mr. Levin would have been entitled only to all accrued obligations.

### **Director’s Compensation**

Each director who receives less than \$50,000 in compensation from the Company receives (i) a director’s fee of \$24,000 per annum, (ii) \$1,000 for each Board meeting such director attends in person, (iii) \$500 for each Board meeting such director attends telephonically, (iv) \$500 for each committee meeting such director attends in person (up to a maximum of 12 meetings), and (v) \$250 for each committee meeting such director attends telephonically (up to a maximum of 12 meetings). The Chair of the Audit Committee receives an additional \$6,000 per annum, and the Chairs of the Compensation Committee, the Corporate Governance Committee and the Nominating Committee each receive an additional \$3,000 per annum. All Directors shall receive an annual options grant on the 15th day of January of each calendar year following completion of the 36th month of the Director’s term of 15,000 options at the closing market price (mid-point between the bid and asked recorded on the closing price quote on January 15th or the first business day thereafter if markets are closed on the 15th rounded up to the nearest nickel increment (.05). The above options initial and annual grants shall not apply to any management/consulting directors subject to any other management incentive compensation plan. National reimburses all directors for expenses incurred traveling to and from board of directors meetings. Pursuant to the Company’s severance policy for non-management directors, (i) if a director has served at least three years and resigns from the Board before the end of his then current term, he shall receive a payment of \$30,000 for each full year of his unfinished term (he will not be entitled to this payment with respect to the year in which he resigns), and each such payment shall be made immediately following the Annual Meeting of Stockholders relating to the year in which he is not serving as a director, and (ii) all directors who have served at least two years, do not resign during their term, and are not renominated to the Board shall receive a

payment of \$30,000 to be paid immediately following the Annual Meeting of Stockholders at which he was not renominated. A director shall not be entitled to either of these payments if he leaves the Board by reason of death, disability or cause

The following table summarizes the compensation of our directors who received less than \$50,000 in non-board related compensation from for the fiscal year ended September 30, 2014:

| Name                   | Fees<br>Paid | Options<br>Awards | Total<br>Compensation |
|------------------------|--------------|-------------------|-----------------------|
| Richard Abbe (1)       | \$4,000      | \$ -              | \$ 4,000              |
| James Ciocia           | \$-          | \$ -              | \$ -                  |
| Salvatore Giardina     | \$51,750     | \$ 3,000          | \$ 54,750             |
| William Lerner         | \$56,370     | \$ 2,800          | \$ 59,170             |
| Frank S. Plimpton      | \$46,120     | \$ 3,000          | \$ 49,120             |
| Peter Zurkow           | \$46,915     | \$ -              | \$ 46,915             |
| Frederic B. Powers III | \$44,000     | \$ 2,800          | \$ 46,800             |
| Joshua Silverman (2)   | \$4,000      | \$ -              | \$ 4,000              |
| Leonard Sokolow (3)    | \$30,000     | \$ -              | \$ 30,000             |
| Frederick Wasserman    | \$20,500     | \$ 1,183          | \$ 21,683             |
| Peter Zurkow (4)       | \$46,915     | \$ 2,500          | \$ 49,415             |

- 
- (1) Mr. Abbe was appointed as a class III director of the Board on July 29, 2014.
- (2) Mr. Silverman was elected as a class I director of the Board at the 2014 Annual Meeting held on July 29, 2014.
- (3) Mr. Sokolow resigned as a class III director of the Board on July 29, 2014.
- (4) Mr. Zurkow did not stand for reelection as a class I director at the 2014 Annual Meeting of National and his term expired on July 29, 2014.



## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of December 23, 2014, by:

each person known by us to beneficially own more than 5% of the outstanding shares of our common stock;  
 each of our directors;  
 each of our current executive officers; and  
 all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, except as indicated by footnote the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Shares of common stock underlying derivative securities, if any, that currently are exercisable or convertible or are scheduled to become exercisable or convertible for or into shares of common stock within 60 days after the date of the table are deemed to be outstanding in calculating the percentage ownership of each listed person or group but are not deemed to be outstanding as to any other person or group. The address of named beneficial owners that are officers and/or directors is: c/o National Holdings Corporation, 410 Park Avenue, 14<sup>th</sup> Floor, New York, New York 10022.

| Name and Address of Beneficial Owner                         | Amount<br>and<br>Nature of<br>Beneficial<br>Ownership | Percentage<br>of Class |   |
|--|---|------------------------|---|
| Mark D. Klein (1)  | 10,839,855  | 8.4                    | % |
| Robert Fagenson (2)  | 9,849,179   | 7.9                    | % |
| Richard Abbe (3)   | 8,453,123   | 6.9                    | % |
| Joshua Silverman (4)   | 8,286,455   | 6.9                    | % |
| FMR LLC (5)  | 6,546,490   | 5.3                    | % |
| Mark Goldwasser (6)  | 3,445,685   | 2.8                    | % |
| Frederic B. Powers III (7)                                   | 1,666,667   | 1.4                    | % |
| Frank Plimpton (8)   | 1,511,285   | 1.2                    | % |
| James Ciocia   | 772,770   | *                      |   |
| Frederick Wasserman (9)                                      | 121,842   | *                      |   |
| Alan B. Levin  | 107,166   | *                      |   |
| Salvatore Giardina (8)                                       | 60,000  | *                      |   |
| William Lerner (8)   | 60,000  | *                      |   |
| All executive officers and directors as a group (12 Persons) | 36,887,572  | 28.0                   | % |

\* Less than 1%

Consists of (i) 717,094 shares of our Common Stock held directly by Mr. Klein, (ii) 5,700,000 shares of our (1) Common Stock issuable upon exercise of vested options, and (iii) 4,422,761 shares of our Common Stock held by a company controlled by Mr. Klein. Mr. Klein has sole voting and investment power over such shares.

(2) Consists of (i) 1,000,000 shares of our Common Stock issuable upon exercise of options, (ii) 166,666 shares of our Common Stock held a Trust for the benefit of Toby Fagenson, of which Mr. Fagenson is the sole Trustee and has sole voting and investment power over such shares, (iii) 8,014,627 shares of our Common Stock held by Fagenson & Co., Inc., of which Mr. Fagenson is the Chairman and Chief Executive Officer and has sole voting and investment power over such shares and (iv) 667,668 shares of our Common Stock held by National Securities Growth Partners LLC, of which Robert B. Fagenson is the President and has sole voting and investment power.

(3) Consists of (i) 8,286,455 shares of our Common Stock over which Iroquois Capital Management, LLC, Iroquois Mast Fund Ltd. and Messrs Silverman and Abbe have shared voting and investment power, and (ii) 166,668 shares of our Common Stock over which Mr. Abbe has sole voting and investment power. The principal business address for Iroquois Capital Management LLC. and Messrs. Silverman and Abbe is 641 Lexington Avenue, 26<sup>th</sup> Floor, New York, NY 10022.

(4) Consists of shares of our Common Stock over which Iroquois Capital Management, LLC, Iroquois Mast Fund Ltd. and Messrs Silverman and Abbe have shared voting and investment power. The principal business address for Iroquois Capital Management LLC. and Messrs. Silverman and Abbe is 641 Lexington Avenue, 26<sup>th</sup> Floor, New York, NY 10022

Information is based on a Schedule 13G filed by FMR LLC and Edward C. Johnson on February 14, 2014. According to the Schedule 13G, Pyramis Global Advisors Trust Company (“PGATC”), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 6,546,490 shares of our Common Stock as a (5) result of its serving as investment manager of institutional accounts owning such shares. Edward C. Johnson 3d and FMR LLC, through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 6,546,490 shares and sole power to vote or to direct the voting of 6,546,490 shares of our Common Stock owned by the institutional accounts managed by PGATC. The principal business address of FMR LLC and Edward C. Johnson is 245 Summer Street, Boston, Massachusetts 02210.

(6) Consists of (i) 1,180,938 shares of our Common Stock issued on the conversion of 14,762 shares of Series A preferred stock in December 2011, (ii) 236,944 shares our Common Stock held directly by Mr. Goldwasser, (iii) 7,375 shares of our Common Stock held in a individual retirement account for the benefit of Mr. Goldwasser, (iv) 7,375 shares of our Common Stock held in an individual retirement account for the benefit of Mr. Goldwasser’s wife, (v) 13,050, shares of our Common Stock held in trusts for the benefit of Mr. Goldwasser’s children, of which Mr. Goldwasser is the sole Trustee and (vi) 2,000,000 shares of our Common Stock issuable upon exercise of vested stock options.

(7) Consists of shares owned by Powers Private Equity LLC, of which Mr. Powers is a Managing Director. Mr. Powers may be deemed to own the shares of our Common Stock owned by Powers Private Equity LLC. Mr. Powers disclaims beneficial ownership of the shares of our Common Stock owned by Powers Private Equity LLC. The principal business address of Powers Private Equity LLC is 100 W. Putnam Avenue, Greenwich CT 06830.

(8) Includes 60,000 shares of our Common Stock issuable upon exercise of vested options.

(9) Includes 20,000 shares of our Common Stock issuable upon exercise of vested options.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Review, approval, or notification of transactions with related persons**

The board of directors reviews and votes on transactions, arrangements and relationships between us and any of our directors, director nominees, executive officers, beneficial owners of more than 5% of our Common Stock and their respective immediate family members where the amount involved in the transaction exceeds or is expected to exceed \$120,000 in a fiscal year (such transaction, arrangement or relationship, the “Related Transaction”). The director who has a material interest in the related transaction must recuse himself from our board of directors vote on such matter. A majority vote of the remaining board of directors members is required for approval of the related transaction. Before such vote, our board of directors members who are independent of the related transaction review, among other things, the following factors:

the related person’s interest in the transaction;

the approximate dollar value of the amount involved;

the terms of the transaction;

the benefits to us;

the benefits to our stockholders;

the availability of other sources for comparable products, services, or financial benefits; and

whether the transaction is on terms that are no less favorable to us than terms that could have been reached with an unaffiliated third-party under the same or similar circumstances

### **Certain Relationships and Related Transactions**

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



#### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Effective January 1, 2013, Sherb & Co., LLP ("Sherb") combined its practice with RBSM LLP ("RBSM"). As a result of the combination and upon notice by Sherb to us, on January 29, 2013 Sherb was dismissed as the Company's independent registered public accounting firm and RBSM was engaged as the Company's independent registered public accounting firm.

The audit reports of Sherb on the consolidated financial statements of the Company as of September 30, 2012 and 2011 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit reports of Sherb on the consolidated financial statements of the Company for the years ended September 30, 2012 and 2011 contained an explanatory paragraph disclosing the uncertainty regarding the Company's ability to continue as a going concern

During the Company's two fiscal years ended September 30, 2012 and 2011 and through February 4, 2013, there were no disagreements, as defined in Item 304(a)(1)(iv) of Regulation S-K, between the Company and Sherb on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to Sherb's satisfaction, would have caused Sherb to make reference to the matter in connection with its report on the Company's consolidated financial statements for the relevant years. Additionally, during the Company's two fiscal years ended September 30, 2012 and 2011, there were no reportable events, as described in Item 304(a)(1)(v) of Regulation S-K.

During the two years ended September 30, 2012 and 2011 and through February 4, 2013, neither the Company, nor anyone on its behalf, consulted with RBSM regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and neither a written report nor oral advice was provided to the Company that RBSM concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement or a reportable event

On June 23, 2014, National, as approved by its Audit Committee of the Board and ratified by the Company's Board of Directors, dismissed RBSM as the Company's independent registered public accounting firm.

The audit reports of RBSM on the consolidated financial statements of the Company as of September 30, 2013 and 2012 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's two most recent fiscal years ended September 30, 2013 and 2012 and through June 25, 2014, there were no disagreements, as defined in Item 304(a)(1)(iv) of Regulation S-K, between the Company and RBSM on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to RBSM's satisfaction, would have caused RBSM to make reference to the matter in connection with its report on the Company's consolidated financial statements for the relevant years. Additionally, during the Company's two most recent fiscal years and through June 25, 2014, there have been no reportable events, as described in Item 304(a)(1)(v) of Regulation S-K.

Additionally, on June 23, 2014, the Audit Committee, after a thorough and competitive process to review the appointment of the Company's independent registered public accounting firm for the year ending September 30, 2014, authorized management to engage EisnerAmper LLP ("Eisner") as the Company's independent registered accounting firm for the year ending September 30, 2014. During the Company's two most recent fiscal years ended September 30, 2013 and 2012 and through the date of this Current Report on Form 8-K, neither the Company, nor anyone on its behalf, consulted with Eisner regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and neither a written report nor oral advice was provided to the Company that Eisner concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement or a reportable event.

*Audit Fees.* Fees for services performed by Eisner during fiscal year 2014 relating to the audit of our consolidated annual financial statements were approximately \$219,000 and the review of our consolidated quarterly financial statement included in our Form 10-Q for the quarterly period ended June 30, 2014 were approximately \$22,000. Fees for services performed by RBSM during fiscal year 2014 relating to the review of our consolidated quarterly financial statements included in our Forms 10-Q for the quarterly periods ended December 31, 2013 and March 31, 2014 were approximately \$30,000. Fees for services performed by RBSM during fiscal year 2013 relating to the audit of our consolidated annual financial statements and the review of our consolidated quarterly financial statements included in our Forms 10-Q were approximately \$212,000.

*Audit-Related Fees.* "Audit-related fees" include fees billed for assurance and related services that are reasonably related to the performance of the audit and not included in the "audit fees" mentioned above. There were no such fees paid in fiscal years 2014 or 2013.

*Tax Fees.* The fees in fiscal years 2014 and 2013 for tax compliance, tax advice or tax planning amounted to \$14,000 and \$78,000, respectively. Tax services in fiscal year 2014 were provided by Eisner and tax services in fiscal year 2013 were provided by RBSM.

*All Other Fees.* Fees paid to Eisner in 2014 for acquisition-related matters amounted to \$30,000.

*Pre-Approval Policies.* Pursuant to the rules and regulations of the SEC, before the Company's independent public accountant is engaged to render audit or non-audit services, the engagement must be approved by the Company's audit committee or entered into pursuant to the committee's pre-approval policies and procedures. The policy granting pre-approval to certain specific audit and audit-related services and specifying the procedures for pre-approving other services is set forth in the Amended and Restated Charter of the Audit Committee. No representatives of RBSM are expected to attend the Annual Meeting, so stockholders will not have any opportunity to ask Share questions at the meeting.



**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

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

1. Financial Statements

Reports of Independent Registered Accounting Firms

Consolidated Financial Statements

Statements of Financial Condition, September 30, 2014 and September 30, 2013

Statements of Operations for the Years ended September 30, 2014 and September 30, 2013

Statement of Changes in Stockholders' Deficit for the Years ended September 30, 2014 and September 30, 2013

Statements of Cash Flows for the Years ended September 30, 2014 and September 30, 2013

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 notes 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, 2014 By: /s/Mark D. Klein  
Mark D. Klein  
Chief Executive Officer

Date: December 29, 2014 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, 2014 By: /s/ Robert B. Fagenson  
Robert Fagenson,  
Co-Executive Chairman of the Board

Date: December 29, 2014 By: /s/ Mark D. Klein  
Mark D. Klein,  
  
Chief Executive Officer and  
  
Co-Executive Chairman of the Board

Date: December 29, 2014 By: /s/ Mark Goldwasser  
Mark Goldwasser,  
  
President and Director

Date: December 29, 2014 By: /s/ Richard Abbe  
Richard Abbe,  
  
Director

Date: December 29, 2014 By: /s/ James Ciocia  
James Ciocia,  
  
Director

Date: December 29, 2014 By: /s/ Salvatore Giardina  
Salvatore Giardina,  
  
Director

Date: December 29, 2014 By: /s/ William Lerner  
William Lerner,

Director

Date: December 29, 2014 By: /s/ Frank S. Plimpton  
Frank S. Plimpton,

Director

Date: December 29, 2014 By: /s/ Frederic B. Powers III  
Frederic B. Powers III,

Director

Date: December 29, 2014 By: /s/ Joshua Silverman  
Joshua Silverman,

Director

Date: December 29, 2014 By: /s/ Frederick Wasserman  
Frederick Wasserman,

Director

## EXHIBIT INDEX

- Agreement and Plan of Merger, dated as of June 20, 2013, among the Company, National Acquisition Corp. and Gilman Ciocia, Inc. (The schedules and exhibits to the merger agreement are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the SEC, upon request, a copy of any omitted schedule or exhibit.) (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 21, 2013; File No. 001-12629).
- Amendment, dated August 8, 2013, by and among the Company, National Acquisition Corp and Gilman Ciocia, Inc., (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 31, 2013; File No. 001-12629).
- 3.1 The Company's Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10--Q filed on May 17, 2004; File No. 001-12629).
- 3.2 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.6 to the Company's Quarterly Report on Form 10--Q filed on May 10, 2006; File No. 001-12629).
- 3.3 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.5 to the Company's Current Report on Form 8-K filed on June 17, 2008; File No. 001-12629).
- 3.4 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 (incorporated by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10--Q filed on May 17, 2004; File No. 001-12629).
- 3.5 Certificate of Amendment to the Company's 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 (incorporated by reference to Exhibit 3.7 to the Company's Quarterly Report on Form 10--Q filed on May 10, 2006; File No. 001-12629).
- 3.6 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 (incorporated by reference to Exhibit 3.5 to the Company's Current Report on Form 8-K filed on January 18, 2006; File No. 001-12629).
- 3.7 Certificate of Designations, Preferences, and Relative Optional or Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Company's Current Report on Form 8-K filed on June 18, 2006; File No. 001-12629).
- 3.8 Certificate of Designation, Preferences and Rights of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.8 to the Company's Current Report on Form 8-K filed on July 14, 2010; File No. 001-12629).

Certificate of Correction to the Certificate of Designation of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.8 to the Company's Current Report on Form 8-K filed on July 14, 2010; File No. 001-12629).

Certificate of Designation, Preferences and Rights of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.10 to the Company's Current Report on Form 8-K filed on October 5, 2010; File No. 001-12629).

3.11 Certificate of Amendment to the Company's Certificate of Incorporation.

3.12 Certification of Designation, Preferences and Rights of Series E Preferred Stock ((incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2012; File No. 001-12629).

- 3.13 The Company's Amended and Restated Bylaws (incorporated by reference to Exhibit 3.13 to the Company's Quarterly Report on Form 10-K filed on February 13, 2002; File No. 001-12629).
- 3.14 Amendment to Amended and Restated Bylaws (incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2014, File No. 001-12629)
- 4.1 Form of Warrant, dated July 12, 2010 (incorporated by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed on July 14, 2010; File No. 001-12629).
- 4.2 Form of Warrant, dated September 29, 2010 (incorporated by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K filed on October 5, 2010; File No. 001-12629).
- 10.1 Office lease, Seattle, Washington (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed on December 21, 1999; File No. 001-12629).
- 10.2\* 2006 Stock Option Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed on January 26, 2006; File No. 001-12629).
- 10.3\* 2008 Stock Option Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed on January 24, 2008; File No. 001-12629).
- 10.4\* 2013 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on September 19, 2013; File No. 333-191253).
- 10.5\* Co-Executive Chairman and Chief Executive Officer Compensation Plan, dated June 7, 2013, between National Holdings Corporation and Mark D. Klein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 12, 2013; File No. 001-12629).
- 10.6\* Amendment to Co-Executive Chairman and Chief Executive Officer Compensation Plan, dated June 6, 2014, between National Holdings Corporation and Mark D. Klein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2014; File No. 001-12629).
- 10.7\* Second Amendment to Co-Executive Chairman and Chief Executive Officer Compensation Plan, dated September 23, 2014, between National Holdings Corporation and Mark D. Klein (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2014; File No. 001-12629) .
- 10.8\* Release, dated September 23, 2014, between National Holdings Corporation and Mark D. Klein (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2014; File No. 001-12629)
- 10.9\* Nonqualified Stock Option and Dividend Equivalent Agreement, dated as of July 29, 2013, between National Holdings Corporation and Mark D. Klein (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2014; File No. 001-12629).
- 10.10\*



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Co-Executive Chairman Compensation Plan, dated June 20, 2013, between National Holdings Corporation and Robert B. Fagenson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26, 2013; File No. 001-12629).

10.11\* Amendment to Co-Executive Chairman Compensation Plan, dated June 6, 2014, between National Holdings Corporation and Robert B. Fagenson (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2014; File No. 001-12629).

10.12\* Second Amendment to Co-Executive Chairman Compensation Plan, effective October 31, 2014, between National Holdings Corporation and Robert B. Fagenson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 25, 2014; File No. 001-12629)

10.13\* Nonqualified Stock Option and Dividend Equivalent Agreement, dated as of July 28, 2013, between National Holdings Corporation and Robert B. Fagenson.

Employment Agreement, dated as of July 1, 2008, by and between the Company and Mark Goldwasser,  
10.14\* (incorporated by reference to Exhibit 10.36 to the Company's Current Report on Form 8-K filed on July 2,  
2008; File No. 001-12629).

Amendment No. 1 to Employment Agreement, dated as of November 23, 2009, by and between the Company  
10.15\* and Mark Goldwasser (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form  
10-K filed on December 29, 2009; File No. 001-12629).

Letter Agreement, dated as of November 23, 2009, by and between the Company and Mark Goldwasser  
10.16\* (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on  
December 29, 2009; File No. 001-12629).

Amendment to Employment Agreement, dated June 20 2013, between National Holdings Corporation and  
10.17\* Mark Goldwasser (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K  
filed on June 26, 2013; File No. 001-12629).

Option Agreement, dated as of July 1, 2008, by and between the Company and Mark Goldwasser  
10.18\* (incorporated by reference to Exhibit 10.39 to the Company's Current Report on Form 8-K filed on July 2,  
2008; File No. 001-12629).

10.19 Nonqualified Stock Option and Dividend Equivalent Agreement, dated as of June 20, 2013, between National  
Holdings Corporation and Mark Goldwasser.

Employment Agreement, dated as of July 1, 2008, by and between the Company and Alan B. Levin  
10.20\* (incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K filed on July 2,  
2008; File No. 001-12629).

Securities Purchase Agreement, dated as of July 12, 2010 by and between National Holdings Corporation and  
10.21 the investors signatory thereto (incorporated by reference to Exhibit 10.35 to the Company's Current Report on  
Form 8-K filed on July 14, 2013; File No. 001-12629).

Registration Rights Agreement, dated as of July 12, 2010 by and between National Holdings Corporation and  
10.22 the investors signatory thereto (incorporated by reference to Exhibit 10.36 to the Company's Current Report on  
Form 8-K filed on July 14, 2013; File No. 001-12629).

OPN Joint Venture Limited Liability Company Operating Agreement, by and between National Holdings  
10.23 Corporation and Opus Point Partners, LLC, effective as of January 14, 2011 (incorporated by reference to  
Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 24; File No. 001-12629).

Interim Funding and Services Agreement, by and among National Securities Corporation, National Holdings  
10.24 Corporation and OPN Holdings, LLC, effective January 14, 2011 (incorporated by reference to Exhibit 10.2 to  
the Company's Current Report on Form 8-K filed on July 24; File No. 001-12629).

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Placement Agency Agreement, dated as of December 6, 2011, by and between OPN Capital Markets and TG  
10.25 Therapeutics, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K  
filed on January 6, 2012; File No. 001-12629).

Transfer of Ownership of OPN Holdings, LLC Joint Venture, dated as of April 4, 2013, by and between  
10.26 Michael S. Weiss and Opus Point Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's  
Current Report on Form 8-K filed on April 4, 2013).

10.27 Securities Purchase Agreement, dated as of January 24, 2013, by and among National Holdings Corporation and the purchasers signatory thereto previously (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No. 001-12629).

10.28 Registration Rights Agreement, dated as of January 24, 2013, by and among national Holdings Corporation and the purchasers signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No. 001-12629).

10.29 Conversion and Exchange Agreement, dated as of January 24, 2013, by and among National Holdings Corporation and the holders of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No. 001-12629).

10.30 Conversion and Exchange Agreement, dated as of January 24, 2013, by and between National Holdings Corporation and National Securities Growth Partners LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No. 001-12629).

10.31 Warrant Exchange Agreement, dated as of January 24, 2013, by and between National Holdings Corporation and the holders of warrants signatory thereto (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A filed on January 31, 2013; File No. 001-12629).

10.32 Form of Voting and Support Agreement entered into as of June 20, 2013, among the Company, National Acquisition Corp. and certain stockholders of Gilman Ciocia, Inc., (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on June 21, 2013; File No. 001-12629).

10.33 Securities Purchase Agreement, dated as of August 28, 2013, by and among National Holdings Corporation and the purchasers signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on August 30, 2013; File No. 001-12629).

10.34 Registration Rights Agreement, dated as of August 28, 2013, by and among national Holdings Corporation and the purchasers signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed on August 30, 2013; File No. 001-12629).

10.35 Investors Settlement Agreement, dated as of June 6, 2014, by and among National Holdings Corporation and the entities and individuals listed on the signature page therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 6, 2014; File No. 001-12629).

14. The Code of Ethics filed as Exhibit 14 to Form 10-K in December 2003 and hereby incorporated by reference.

21. Subsidiaries of Registrant.

23.1 Consent of RBSM, LLP.

23.2 Consent of EisnerAmper 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.

101.INS\*\* XBRL Instance Document

101.SCH\*\* XBRL Taxonomy Extension Schema

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase

\*Compensatory agreements

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES**

**SEPTEMBER 30, 2014**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

National Holdings Corporation

We have audited the accompanying consolidated statement of financial condition of National Holdings Corporation and subsidiaries (the "Company") as of September 30, 2014, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 audit included 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2014, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ EisnerAmper LLP

New York, New York

December 29, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

National Holdings Corporation

We have audited the accompanying consolidated statement of financial condition of National Holdings Corporation and Subsidiaries (the "Company") as of September 30, 2013, and the related consolidated statement of operations, changes in stockholders' equity and cash flows for the year ended September 30, 2013. 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 audit.

We conducted our audit 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 audit included 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 financial statement presentation. We believe that our audit provides 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, 2013, and the results of its operations and its cash flows for the year ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ RBSM LLP

New York, NY

December 27, 2013

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## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|  | <b>September 30,</b> |                     |
|--|----------------------|---------------------|
|  | <b>2014</b>          | <b>2013</b>         |
| <b>ASSETS</b>  |                      |                     |
| Cash   | \$24,465,000         | \$19,985,000        |
| Restricted Cash  | 92,000               | 92,000              |
| Cash deposits with clearing organizations  | 1,005,000            | 1,107,000           |
| Securities owned at fair value   | 1,061,000            | 467,000             |
| Receivables from broker dealers and clearing organizations   | 4,985,000            | 4,296,000           |
| Forgivable loans receivable  | 662,000              | 436,000             |
| Other receivables, net   | 3,998,000            | 1,424,000           |
| Prepaid expenses   | 932,000              | 764,000             |
| Fixed assets, net  | 752,000              | 447,000             |
| Intangible assets, net   | 7,595,000            | -                   |
| Goodwill   | 6,531,000            | -                   |
| Deferred tax asset, net  | 11,925,000           | -                   |
| Other assets, principally refundable deposits  | 790,000              | 493,000             |
| <b>Total Assets</b>  | <b>\$64,793,000</b>  | <b>\$29,511,000</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                     |
| <b>Liabilities</b>   |                      |                     |
| Accrued commissions and payroll payable  | \$13,520,000         | \$9,332,000         |
| Accounts payable and other accrued expenses  | 5,636,000            | 4,108,000           |
| Securities sold, not yet purchased at fair value   | 55,000               | 15,000              |
| Deferred clearing credit   | 971,000              | 138,000             |
| Other  | 79,000               | 121,000             |
| <b>Total Liabilities</b>   | <b>20,261,000</b>    | <b>13,714,000</b>   |
| <b>Stockholders' Equity</b>  |                      |                     |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none outstanding  |                      |                     |
| Common stock \$0.02 par value, 150,000,000 shares authorized; 124,454,783 issued and outstanding at September 30, 2014 and 100,580,203 shares issued and outstanding at September 30, 2013 | 2,490,000            | 2,012,000           |
| Additional paid-in-capital   | 77,596,000           | 67,982,000          |
| Accumulated deficit  | (35,569,000)         | (54,212,000)        |
| <b>Total National Holdings Corporation Stockholders' Equity</b>  | <b>44,517,000</b>    | <b>15,782,000</b>   |
| Non-Controlling interest   | 15,000               | 15,000              |
| <b>Total Stockholders' Equity</b>  | <b>44,532,000</b>    | <b>15,797,000</b>   |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$64,793,000</b>  | <b>\$29,511,000</b> |

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

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## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Years Ended September 30, |                     |
|---|---------------------------|---------------------|
|   | 2014                      | 2013                |
| <b>Revenues</b>   |                           |                     |
| Commissions   | \$ 114,301,000            | \$ 78,168,000       |
| Net dealer inventory gains  | 16,482,000                | 13,426,000          |
| Investment banking  | 19,035,000                | 14,002,000          |
| Investment advisory   | 14,161,000                | 9,508,000           |
| Interest and dividends  | 3,541,000                 | 3,935,000           |
| Transfer fees and clearing services   | 8,676,000                 | 7,740,000           |
| Tax preparation and accounting  | 7,811,000                 | -                   |
| Other   | 285,000                   | 804,000             |
| <b>Total Revenues</b>   | <b>184,292,000</b>        | <b>127,583,000</b>  |
| <b>Operating Expenses</b>   |                           |                     |
| Commissions, compensation and fees  | 152,145,000               | 109,563,000         |
| Clearing fees   | 3,701,000                 | 2,840,000           |
| Communications  | 4,772,000                 | 4,494,000           |
| Occupancy   | 4,056,000                 | 2,070,000           |
| Licenses and registration   | 1,620,000                 | 1,483,000           |
| Professional fees   | 4,099,000                 | 2,642,000           |
| Interest  | 33,000                    | 248,000             |
| Depreciation and amortization   | 1,136,000                 | 926,000             |
| Other administrative expenses   | 4,908,000                 | 1,530,000           |
| <b>Total Operating Expenses</b>   | <b>176,470,000</b>        | <b>125,796,000</b>  |
| <b>Income from Operations</b>   | <b>7,822,000</b>          | <b>1,787,000</b>    |
| <b>Other Expense</b>  |                           |                     |
| Loss on investment in unaffiliated entity   | -                         | (162,000 )          |
| <b>Total Other expense</b>  | <b>-</b>                  | <b>(162,000 )</b>   |
| <b>Income before income taxes</b>   | <b>\$ 7,822,000</b>       | <b>\$ 1,625,000</b> |
| Income tax (benefit) expense (Note 13)  | (10,821,000 )             | 60,000              |
| <b>Net Income</b>   | <b>18,643,000</b>         | <b>1,562,000</b>    |
| Net loss attributable to non-controlling interest   | -                         | 3,000               |
| <b>NET INCOME ATTRIBUTABLE TO NATIONAL HOLDINGS CORPORATION</b>                                     | <b>\$ 18,643,000</b>      | <b>\$ 1,565,000</b> |
| <b>Net income per share of common stock attributable to National Holdings Corporation - Basic</b>   | <b>\$ 0.15</b>            | <b>\$ 0.02</b>      |
| <b>Net income per share of common stock attributable to National Holdings Corporation - Diluted</b> | <b>\$ 0.15</b>            | <b>\$ 0.02</b>      |

|  |                    |                   |
|--|--------------------|-------------------|
| <b>Weighted average number of shares outstanding - Basic</b>   | <b>123,026,480</b> | <b>70,651,415</b> |
| <b>Weighted average number of shares outstanding - Diluted</b> | <b>123,888,863</b> | <b>74,887,749</b> |

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

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## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

## YEARS ENDED SEPTEMBER 30, 2014 and 2013

|  | Preferred Stock C |             | Preferred Stock D |             | Common Stock |           | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | N |
|--|-------------------|-------------|-------------------|-------------|--------------|-----------|----------------------------------|------------------------|---|
|  | Shares            | \$          | Shares            | \$          | Shares       | \$        |                                  |                        |   |
| BALANCE,<br>October 1, 2012  | 34,169            | \$2,551,000 | 60,000            | \$3,605,000 | 26,555,572   | \$531,000 | \$46,184,000                     | (55,780,000)           |   |
| Issuance of<br>shares of<br>common stock<br>pursuant to the<br>conversion of<br>Series C<br>Preferred Stock      | (34,169)          | (2,551,000) | -                 | -           | 3,416,691    | 68,000    | 2,483,000                        | -                      |   |
| Issuance of<br>shares of<br>common stock<br>pursuant to the<br>conversion of<br>Series D<br>Preferred Stock      | -                 | -           | (60,000)          | 3,605,000   | 6,000,000    | 120,000   | 3,485,000                        | -                      |   |
| Issuance of<br>shares of<br>common stock<br>pursuant to the<br>conversion of<br>Series E<br>Subordinated<br>Note | -                 | -           | -                 | -           | 10,000,000   | 200,000   | 4,800,000                        | -                      |   |
| Issuance of<br>shares of<br>common stock<br>pursuant to the<br>conversion of<br>certain<br>outstanding           | -                 | -           | -                 | -           | 12,951,195   | 259,000   | (259,000 )                       | -                      |   |

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Warrants

|  |   |   |   |   |             |           |            |              |
|--|---|---|---|---|-------------|-----------|------------|--------------|
| Issuance of shares of common stock pursuant to Private Placement                                   | - | - | - | - | 40,034,928  | 801,000   | 10,777,000 | -            |
| Issuance of shares of common stock and related stock-based compensation for restricted stock units | - | - | - | - | 621,817     | 13,000    | 227,000    | -            |
| Issuance of shares of common stock to satisfy certain liabilities                                  | - | - | - | - | 1,000,000   | 20,000    | 293,000    | -            |
| Accrue for distribution of remaining equity to non-controlling equity holder                       | - | - | - | - | -           | -         | (147,000 ) | -            |
| Stock-based compensation - stock options   | - | - | - | - | -           | -         | 139,000    | -            |
| Net income   | - | - | - | - | -           | -         | -          | 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 acquisition of Gilman & Ciocia, Inc.            | - | - | - | - | 22,666,685  | 453,000   | 8,387,000  | -            |
|  | - | - | - | - | -           | -         | 871,000    | -            |



Stock – based  
compensation  
stock options

Issuance of  
shares of  
common stock  
and related  
stock-based  
compensation  
for restricted  
stock units

Other (Note 17)

Net income

BALANCE,  
September 30,  
2014

|   |     |   |     |             |             |              |              |    |
|---|-----|---|-----|-------------|-------------|--------------|--------------|----|
| - | -   | - | -   | 577,895     | 12,000      | 241,000      | -            | -  |
| - | -   | - | -   | 630,000     | 13,000      | 115,000      | -            | -  |
| - | -   | - | -   | -           | -           | -            | 18,643,000   | -  |
| - | \$- | - | \$- | 124,454,783 | \$2,490,000 | \$77,596,000 | (35,569,000) | \$ |

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

## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | <b>Years ended September</b> |                   |
|---|------------------------------|-------------------|
|   | <b>30,</b>                   |                   |
|   | <b>2014</b>                  | <b>2013</b>       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                              |                   |
| Net income  | \$ 18,643,000                | \$ 1,565,000      |
| <b>Adjustments to reconcile net income to net cash provided by operating activities</b> |                              |                   |
| Depreciation and amortization   | 1,136,000                    | 922,000           |
| Amortization of forgivable loans  | 243,000                      | 349,000           |
| Stock-based compensation  | 1,124,000                    | 379,000           |
| Loss on investment in unaffiliated entity   | -                            | 162,000           |
| Provision for doubtful accounts   | 323,000                      | (96,000 )         |
| Deferred tax benefit  | (11,925,000)                 | -                 |
| Amortization of deferred clearing credit  | 134,000                      | 113,000           |
| <b>Changes in assets and liabilities, net of effects of acquisition</b>                 |                              |                   |
| Restricted cash   | -                            | (92,000 )         |
| Deposits with clearing organizations  | 374,000                      | -                 |
| Receivables from broker-dealers, clearing organizations and others                      | (1,435,000 )                 | (1,722,000 )      |
| Securities owned, at fair value   | (594,000 )                   | 285,000           |
| Prepaid expenses  | 391,000                      | -                 |
| Other assets  | (169,000 )                   | (276,000 )        |
| Accounts payable, accrued expenses and other liabilities                                | (554,000 )                   | 1,911,000         |
| Deferred clearing costs   | 699,000                      | -                 |
| Securities sold, but not yet purchased, at market                                       | 40,000                       | 14,000            |
| <b>Net cash provided by operating activities</b>  | <b>8,430,000</b>             | <b>3,514,000</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                              |                   |
| Cash acquired in acquisition  | 1,654,000                    | -                 |
| Purchase of fixed assets  | (204,000 )                   | (241,000 )        |
| <b>Net cash provided by (used in) investing activities</b>                              | <b>1,450,000</b>             | <b>(241,000 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                              |                   |
| Principal repayment of notes payable  | -                            | (1,800,000 )      |
| Repayment of subordinated borrowings  | -                            | (1,000,000 )      |
| Repayment of certain liabilities of acquired entity                                     | (5,400,000 )                 | -                 |
| Net proceeds from issuance of common stock  | -                            | 11,578,000        |
| <b>Net cash (used in) provided by financing activities</b>                              | <b>(5,400,000 )</b>          | <b>8,778,000</b>  |
| <b>NET INCREASE IN CASH</b>   | <b>4,480,000</b>             | <b>12,051,000</b> |

**CASH BALANCE**

|                              |                     |                     |
|------------------------------|---------------------|---------------------|
| <b>Beginning of the year</b> | <b>19,985,000</b>   | <b>7,934,000</b>    |
| <b>End of the year</b>       | <b>\$24,465,000</b> | <b>\$19,985,000</b> |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for:

|              |           |           |
|--------------|-----------|-----------|
| Interest     | \$33,000  | \$415,000 |
| Income taxes | \$326,000 | \$47,000  |

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES**

|   |              |             |
|---|--------------|-------------|
| Acquisition of Gilman & Ciocia, Inc.                        |              |             |
| Tangible assets acquired, excluding cash                    | \$3,933,000  | \$-         |
| Identifiable intangible assets acquired                     | \$8,350,000  | \$-         |
| Goodwill  | \$6,531,000  | \$-         |
| Liabilities assumed   | \$11,628,000 | \$-         |
| Common stock issued   | \$8,840,000  | \$-         |
| Other (Note 17)   | \$128,000    | \$-         |
| Fair value of shares of common stock to satisfy liabilities | \$-          | \$313,000   |
| Deemed distribution to non-controlling interest             | \$-          | \$147,000   |
| Conversion of preferred stock to shares of common stock     | \$-          | \$6,156,000 |
| Conversion of convertible debt to shares of common stock    | \$-          | \$5,000,000 |
| Conversion of warrants to common stock                      | \$-          | \$259,000   |

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

## NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

#### NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

National Holdings Corporation (“National” or the “Company”), a Delaware corporation organized in 1996, operates through its wholly owned subsidiaries which principally provide financial services. Through its broker-dealer and investment advisory subsidiaries, the Company (1) offers full service retail brokerage to high net worth individual 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 micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Broker-dealer subsidiaries consist of National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). As a result of the merger with Gilman in October 2013 (See Note 4), the Company added Prime Capital Services, Inc. (“Prime”) to its portfolio of Broker Dealer Subsidiaries, however, in November 2013, National Securities and Prime received approval from the Financial Industry Regulatory Authority (“FINRA”) allowing for a mass transfer of Prime’s brokers and customer accounts to National Securities. This transfer which was completed on November 22, 2013, 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 City, Boca Raton, Florida, and Seattle, Washington. Broker-dealer subsidiaries are introducing brokers and clear all transactions through clearing organizations, on a fully disclosed basis. The Broker-Dealer Subsidiaries are registered with the Securities and Exchange Commission (“SEC”) and the Commodities and Futures Trading Commission (“CFTC”), and are members of FINRA, Securities Investor Protection Corporation and the National Futures Association.

The Company’s wholly-owned subsidiaries, National Asset Management, Inc., a Washington corporation (“NAM”) and Asset and Financial Planning LTD, a New York corporation (“AFP”), which was acquired in the Gilman merger, are federally-registered investment advisers providing asset management advisory services to high net worth clients for a fee based upon a percentage of assets managed. All registered investment advisors and customer accounts of AFP were moved into NAM in May 2014 and AFP has ceased all operations.

The Company’s wholly-owned subsidiaries, National Insurance Corporation, a Washington corporation (“National Insurance”) and Prime Financial Services (“Prime Financial”), a Delaware corporation, which was acquired in the Gilman merger, provide fixed insurance products to their clients, including life insurance, disability insurance, long term care insurance and fixed annuities.

The Company's wholly-owned subsidiary Gilman, a Delaware corporation which was acquired in October 2013, provides tax preparation services to individuals and accounting services to small and midsize companies.

The Company's wholly-owned subsidiary, GC Capital Corporation, a Washington corporation, ("GC") which was acquired in the Gilman merger, provides licensed mortgage brokerage services in the State of Florida.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Principals of Consolidation

The consolidated financial statements include the accounts of National and its wholly owned and majority owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The non-controlling interest represents a 24.9% ownership in an inactive subsidiary.

### Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles 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 (See Note 15).

### Revenue Recognition

Commission revenue represents commissions generated by the Company's financial advisors for their clients' purchases and sales of mutual funds, variable annuities, general securities and other financial products, most of which is paid to the advisors as commissions for initiating the transactions.

Commission revenue is generated from front-end sales commissions that occur at the point of sale, as well as trailing commissions. The Company recognizes front-end sales commission revenue and related clearing and other expenses on transactions introduced to its clearing brokers on a trade date basis. The Company also recognizes front-end sales commissions and related expenses on transactions initiated directly between the financial advisors and product sponsors upon receipt of notification from sponsors of the commission earned. Commission revenue also includes 12b-1 fees, and variable product trailing fees, collectively considered as trailing fees, which are recurring in nature. These trailing fees are earned by the Company based on a percentage of the current market value of clients' investment holdings in trail eligible assets. Because trail commission revenues are generally paid in arrears, management estimates commission revenues earned during each period. These estimates are based on a number of factors including investment holdings and the applicable commission rate and the amount of trail commission revenue received in prior periods. Estimates are subsequently adjusted to actual based on notification from the sponsors of trail commissions earned.

Net dealer inventory gains, which are recorded on a trade-date basis, include realized and unrealized net gains and losses resulting from the Company's principal trading activities.

Investment banking revenues consist of underwriting revenues, advisory revenues and private placement fees. Underwriting revenues arise from securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Underwriting revenues are recorded at the time the underwriting is completed and the income is reasonably determined. Management estimates the Company's share of the transaction-related expenses incurred by the syndicate, and recognizes revenues net of such expense. On final settlement, typically within 90 days from the trade date of the transaction, these amounts are adjusted to reflect the actual transaction-related expenses and the resulting underwriting fee.

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

Interest is recorded on an accrual basis and dividends are recorded on the ex-dividend date.

Transfer fees and fees for clearing services, which are recorded on a trade date basis, are principally charged to the broker on customer security transactions.

Tax preparation and accounting fees are recognized upon completion of the services.

### Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for net operating loss and other carryforwards. Deferred tax assets and liabilities are measured, using enacted tax rates expected to apply in the years in which the differences are expected to be recovered or settled. 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.

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## Securities

Securities owned and securities sold, but not yet purchased, are recorded at fair value. Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level  
1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level  
2 Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

Level  
3 Unobservable inputs which reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

See Note 7 for fair value and classification of securities.

## 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 (See Note 8).

Fixed assets are reviewed for impairment whenever indicators of impairment exist. 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.

### Net Income per Common Share

Basic net income per share of common stock attributable to National Holdings Corporation is computed on the basis of the weighted average number of common shares outstanding. Diluted net income per share per share of common stock attributable to National Holdings Corporation is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of incremental shares of common stock potentially issuable under outstanding options, warrants and unvested restricted stock units utilizing the treasury stock method, and for 2013, the dilutive effect of convertible preferred securities utilizing the if-converted method.

|  | Years Ended           |              |
|--|-----------------------|--------------|
|  | September 30,<br>2014 | 2013         |
| Numerator:   |                       |              |
| Net income attributable to common shareholders                       | \$ 18,643,000         | \$ 1,565,000 |
| Denominator:   |                       |              |
| Denominator for basic earnings per share-weighted average shares     | 123,026,480           | 70,651,415   |
| Effect of dilutive securities:                                       |                       |              |
| Options  | 498,585               |              |
| Warrants   | 41,693                |              |
| Assumed conversion of Series C and D preferred stock                 | -                     | 2,992,702    |
| Unvested restricted stock units                                      | 322,105               | 1,243,632    |
| Denominator for diluted earnings per share-adjusted weighted-average | 123,888,863           | 74,887,749   |
| Income per share:  |                       |              |
| Net income available to common stockholders                          |                       |              |
| Basic  | \$0.15                | \$0.02       |
| Diluted  | \$0.15                | \$0.02       |

Potential common share equivalents not included in the above computation because to do so would be anti-dilutive are as follows:

|          | September 30, |            |
|----------|---------------|------------|
|          | 2014          | 2013       |
| Options  | 6,767,000     | 10,000,000 |
| Warrants | -             | 896,775    |
|          | 6,767,000     | 10,896,755 |

### Stock-based Compensation

The Company measures the cost of employee, officer and director services received in exchange for an award of equity instruments including stock options and restricted stock units, based on the grant-date fair value of the award and measures the cost of independent contractor awards based on the vesting date fair value of the award. The cost is recognized as compensation expense over the service period, which would normally be the vesting period of the award.

### Deferred Clearing Credit

Deferred clearing credit represents a clearing fee rebate from National Financial Services (“NFS”), one of the Company’s clearing brokers’, which is being recognized pro rata as a reduction of clearing charges over the term of the clearing agreement which expires in 2021. The clearing rebate recognized in fiscal years 2014 and 2013 amounted to \$134,000 and \$113,000 respectively. At September 30, 2014, the remaining deferred credit amounts to \$971,000, which will be recognized over the remaining term of the clearing agreement.

### Reimbursement of Expenses

The Company incurs certain costs on behalf of its financial advisors including those for insurance, professional registration, technology and information services and legal services, amongst others, which are charged back to the advisors. It is the Company’s policy to record the reimbursement as a reduction of the respective operating expense.

### Intangible Assets

Intangible assets were recorded in connection with the acquisition of Gilman (See Note 4). Intangible assets with finite lives, which consist of non-competition agreements and customer relationships, are being amortized over their estimated useful lives on a straight-line basis. Such intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assesses the recoverability of its intangible assets by determining whether the unamortized balance can be recovered over the assets' remaining estimated useful life through undiscounted estimated future cash flows. If undiscounted estimated future cash flows indicate that the unamortized amounts will not be recovered, an adjustment will be made to reduce such amounts to fair value based on estimated future cash flows discounted at a rate commensurate with the risk associated with achieving such cash flows. Estimated future cash flows are based on trends of historical performance and the Company's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Brand names are deemed to have an indefinite life, are not subject to amortization and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Brand names are tested for impairment by comparing their fair value to their carrying amount. If the carrying amount exceeds fair value, an impairment loss is recognized for the excess.

#### Goodwill

Goodwill, which was recorded in connection with the acquisition of Gilman (See Note 4), is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill represents the excess of the purchase price of Gilman over the fair value of its identifiable net assets acquired. Goodwill is tested for impairment at the reporting unit level. Fair value is typically based upon estimated future cash flows discounted at a rate commensurate with the risk involved or market-based comparables. If the carrying amount of the reporting unit's net assets exceeds its fair value, then an analysis will be performed to compare the implied fair value of goodwill with the carrying amount of goodwill. An impairment loss will be recognized in an amount equal to the excess of the carrying amount over its implied fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities testing goodwill for impairment the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such two-step impairment test. The annual impairment test performed on September 30, 2014 did not indicate any impairment of goodwill.

#### Reclassifications

Certain items in the statements of financial condition and operations for 2013 have been reclassified to conform to their presentation in 2014. In addition, the statement of financial condition at September 30, 2013 is being presented on an unclassified basis, consistent with industry practice for registered broker-dealers in securities, which is the Company's principal business. Such reclassifications did not have a material impact on the presentation of the overall

financial statements.

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### NOTE 3. RECENT ACCOUNTING GUIDANCE

#### Recently adopted accounting guidance

In July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 were effective for the Company beginning October 1, 2013, and did not affect the Company’s financial statements.

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 requires the netting of unrecognized tax benefits against a deferred tax asset for the loss or other carryforward that would apply in settlement of the uncertain tax positions. The new guidance will be effective for the Company beginning October 1, 2014. The Company believes that the new guidance will not have any material impact on the Company’s financial statements.

In April 2014, the FASB issued ASU 2014-08, which changes the requirements for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. ASU 2014-08, which is to be applied prospectively to all new disposals of components and new classifications as held for sale, will become effective in annual periods beginning on or after December 15, 2014 and interim periods within those annual periods with early adaption allowed. The Company does not anticipate that the adoption of ASU 2014-08 will have a material impact on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which completes the joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and the International Financial Reporting Standards. ASU 2014-09 will become effective for the Company beginning October 1, 2017 and early adoption is not permitted. The Company is currently evaluating the potential impact of ASU 2014-09 on its financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 will become effective for the Company beginning October 1, 2016 and early adoption is permitted. The Company does not anticipate that the adoption of ASU 2014-08 will have a material impact on its financial statements.

**NOTE 4. BUSINESS COMBINATION**

On October 15, 2013, the Company completed a merger with Gilman Ciocia, Inc., a Delaware corporation (“Gilman”) pursuant to the terms and conditions of the Agreement and Plan of Merger (the “Merger Agreement”), dated as of June 20, 2013, by and among the Company, National Acquisition Corp., a Delaware corporation and the Company’s wholly-owned subsidiary (“Merger Sub”), and Gilman. Pursuant to the Merger Agreement, Merger Sub was merged with and into Gilman, with Gilman surviving the merger and becoming a wholly-owned subsidiary of the Company. Gilman provides federal, state and local tax preparation services to individuals predominantly in upper and middle income tax brackets and accounting services to small and middle size companies. In addition, through wholly owned subsidiaries, Gilman is engaged in broker-dealer, investment advisory, insurance product sales and mortgage brokerage activities.

Pursuant to the Merger Agreement, the Company issued to Gilman’s stockholders 22,666,685 shares of its common stock valued at \$8,840,000 determined based on the closing market price of the Company’s common stock on the acquisition date, and became the owner of 100% of the outstanding shares of Gilman’s common stock. Additionally, the Company financed repayment of \$5,400,000 of Gilman’s liabilities through a capital contribution to Gilman. 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.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows:

Assets

|                   |             |
|-------------------|-------------|
| Current assets    | \$4,833,000 |
| Fixed assets      | 482,000     |
| Other assets      | 272,000     |
| Intangible assets | 8,350,000   |
| Goodwill          | 6,531,000   |
|                   | 20,468,000  |

Liabilities

|                       |             |
|-----------------------|-------------|
| Current liabilities   | 6,000,000   |
| Long-term liabilities | 5,628,000   |
|                       | 11,628,000  |
|                       | \$8,840,000 |

The goodwill recognized, none of which is deductible for income tax purposes, is attributable to the assembled workforce of Gilman and to expected synergies and other benefits that the Company believes will result from combining its operations with 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 acquired, their carrying amount as of September 30, 2014 and their estimated useful lives:

| Intangible asset       | Fair Value  | Accumulated Amortization | Carrying Value | Estimated Useful Life (years) |
|------------------------|-------------|--------------------------|----------------|-------------------------------|
| Customer relationships | \$6,400,000 | \$ 613,000               | \$5,787,000    | 10                            |
| Non-compete            | 296,000     | 142,000                  | 154,000        | 2                             |
| Brands                 | 1,654,000   | -                        | 1,654,000      | Indefinite                    |
|                        | \$8,350,000 | \$ 755,000               | \$7,595,000    |                               |



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

|                          |             |
|--------------------------|-------------|
| Year ended September 30, |             |
| 2015                     | \$ 788,000  |
| 2016                     | 646,000     |
| 2017                     | 640,000     |
| 2018                     | 640,000     |
| 2019                     | 640,000     |
| Thereafter               | 2,587,000   |
|                          | \$5,941,000 |

Changes in the carrying value of goodwill during the year ended September 30, 2014 and the amount of goodwill by reportable segment is as follows:

|                                  |             |             |             |
|----------------------------------|-------------|-------------|-------------|
|                                  | Brokerage   | Tax and     |             |
|                                  | and         | Accounting  | Total       |
|                                  | Advisory    | Services    |             |
|                                  | Services    |             |             |
| Balance as of October 1, 2013    | \$-         | \$-         | \$-         |
| Acquisition of Gilman            | 5,412,000   | 1,119,000   | 6,531,000   |
| Balance as of September 30, 2014 | \$5,412,000 | \$1,119,000 | \$6,531,000 |

There was no activity in Fiscal 2013.

Gilman's results of operations are included in the accompanying consolidated financial statements from October 15, 2013, the date of acquisition. The following pro forma consolidated results of operations have been prepared as if the acquisition occurred at October 1, 2012:

|             |             |
|-------------|-------------|
| (Unaudited) | (Unaudited) |
| Year Ended  | Year Ended  |
| September   | September   |
| 30, 2014    | 30, 2013    |

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|   |                |                |
|---|----------------|----------------|
| Revenues  | \$ 185,896,000 | \$ 165,014,000 |
| Net Income attributable to common stockholders  | \$ 18,005,000  | \$ 1,120,000   |
| Basic earnings per share                        | \$0.15         | \$0.01         |
| Diluted earnings per share                      | \$0.14         | \$0.01         |
| Weighted number of shares outstanding - basic   | 123,957,988    | 102,161,679    |
| Weighted number of shares outstanding - diluted | 124,820,372    | 106,520,061    |

These pro forma 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 1,750,000 stock options to certain employees of Gilman, 3) the shares issued by the Company to acquire Gilman and to partially fund the \$5,400,000 of cash consideration used to finance the repayment of Gilman's liabilities, and 4) the decrease in interest expense related to Gilman's liabilities paid by the Company. 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 resulted had the acquisition occurred on the date indicated or that may result in the future.

Acquisition related costs incurred by the Company amounted to \$131,000 and \$86,000 in 2014 and 2013, respectively and were charged to professional fees.

The revenues of Gilman since the acquisition date included in the accompanying consolidated statement of operations for the year ended September 30, 2014, including amounts attributable to Prime and AFP whose operations were transferred to the Company's subsidiaries (see Note 1), amounted to \$36,562,000. The net income of Gilman attributable to common stockholders since the acquisition date included in the accompanying consolidated statement of operations for the year ended September 30, 2014 amounted to \$2,608,000, including a \$1,809,000 income tax benefit attributable to the reversal of a valuation allowance offset against Gilman's deferred tax asset recorded at date of acquisition. Such income excludes amounts attributable to the operations of Prime and AFP which are impracticable to determine because of the transfer of their operations to subsidiaries of the Company and the resultant inability to separate net income amounts attributable to those transferred entities.

#### **NOTE 5. BROKER-DEALERS AND CLEARING ORGANIZATIONS AND OTHER RECEIVABLES**

At September 30, 2014 and 2013, the receivables of \$4,985,000 and \$4,296,000, respectively, from broker-dealers and clearing organizations represent net amounts due for commissions and fees associated with the Company's retail brokerage business as well as asset based fee revenue associated with the Company's asset management advisory business. Other receivables at September 30, 2014 and 2013 of \$3,998,000 and 1,424,000, respectively, principally represent trailing fees and fees for tax and accounting services in 2014 and investment banking fees in 2013 and are net of an allowance for uncollectable accounts of \$323,000 and \$13,000, respectively.

#### **NOTE 6. FORGIVABLE LOANS RECEIVABLE**

From time to time, the Company's operating subsidiaries may make loans, evidenced by promissory notes, primarily to newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest ranging up to 9%). These notes have various schedules for repayment or forgiveness based on production or retention requirements being met and mature at various dates through 2018. Forgiveness of loans amounted to \$243,000 and \$349,000 for the years ended September 30, 2014 and 2013 respectively, and the related compensation was included in commissions, compensation and fees in the statement of operations. In the event the advisor's affiliation with the subsidiary terminates, the advisor is required to repay the unamortized balance of the note. The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of September 30, 2014 and 2013, no allowance for doubtful accounts was required.

Forgivable loan activity for the fiscal years ended September 30, 2014 and 2013 is as follows:

Balance, September 30, 2012 \$355,000

|                             |           |
|-----------------------------|-----------|
| Advances                    | 430,000   |
| Amortization of advances    | (349,000) |
| Balance, September 30, 2013 | 436,000   |
| Advances                    | 469,000   |
| Amortization of advances    | (243,000) |
| Balance, September 30, 2014 | \$662,000 |

There were no forgivable loans outstanding at September 30, 2014 and 2013 attributable to registered representatives who ended their affiliation with the Company's subsidiaries prior to the fulfillment of their obligation.

**NOTE 7. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE**

Classification of securities are as follows:

**As of September 30, 2014**

| <b>Securities owned at fair value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---------------------------------------|----------------|----------------|----------------|--------------|
| Corporate stocks                      | \$256,000      | -              | -              | \$256,000    |
| Municipal bonds                       | 696,000        |                |                | 696,000      |
| Restricted stock and warrants         | -              | 109,000        | -              | 109,000      |
|                                       | \$952,000      | \$109,000      | \$-            | \$1,061,000  |

| <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  | \$55,000       | \$-            | \$-            | \$55,000     |

**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     |

Certain positions in common stock and warrants were received as compensation for investment banking services. Warrants are carried at a discount to fair value as determined by using the Black-Scholes option-pricing model due to illiquidity. This model takes into account the underlying securities' current market value, the market volatility of the underlying securities, the term of the warrants, exercise price, and risk-free rate of return. The common stock positions are restricted and may be freely traded only upon the effectiveness of a registration statement covering them or upon the satisfaction of the requirements of Rule 144, including the requisite holding period. Restricted common stock and warrants are classified as Level 2 securities.

**NOTE 8. FIXED ASSETS**

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

|   | September 30, |             | Estimated Useful                       |
|---|---------------|-------------|--|
|   | 2014          | 2013        | Lives (in years)                       |
| Equipment   | \$339,000     | \$2,668,000 | 5                                      |
| Furniture and fixtures                                    | 139,000       | 532,000     | 5                                      |
| Leasehold improvements                                    | 566,000       | 1,074,000   | Lesser of useful life or term of lease |
| Capital Leases (Primarily composed of computer equipment) | 453,000       | 2,510,000   | 5                                      |
|   | 1,497,000     | 6,784,000   |  |
| Less accumulated depreciation and amortization            | (745,000 )    | (6,337,000) |  |
| Fixed assets - net  | \$752,000     | \$447,000   |  |

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Depreciation and amortization expense for the years ended September 30, 2014 and 2013 was \$381,000 and \$456,000 respectively.

During 2014, fixed assets with a cost of \$5,973,000, which were fully depreciated or amortized and no longer in service were written off.

#### **NOTE 9. INVESTMENT IN UNAFFILIATED ENTITY**

In 2006, vFinance made an investment in an unaffiliated entity for approximately \$162,000 representing a 4.9% equity interest. This entity provided economic feasibility services. In the first fiscal quarter of 2013, management learned that the entity went into receivership and as such established a valuation allowance of \$162,000 to fully reserve against the value of the investment.

#### **NOTE 10. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES**

Accounts payable and other accrued expenses as of September 30, 2014 and 2013, consist of the following:

|                            | September 30, |             |
|----------------------------|---------------|-------------|
|                            | 2014          | 2013        |
| Federal & state income tax | \$732,000     | \$65,000    |
| Legal                      | 911,000       | 761,000     |
| Audit                      | 294,000       | 206,000     |
| Telecommunications         | 240,000       | 202,000     |
| Data Services              | 387,000       | 306,000     |
| Regulatory                 | 838,000       | 860,000     |
| Settlements                | 440,000       | 322,000     |
| Deferred rent              | 160,000       | 220,000     |
| Other                      | 1,634,000     | 1,166,000   |
| Total                      | \$5,636,000   | \$4,108,000 |

#### **NOTE 11. CONVERTIBLE NOTES PAYABLE**

In March, April and September 2012, the Company completed the issuance of convertible notes payable for \$3,300,000, \$700,000 and \$1,000,000, respectively. The notes bear interest at 6% per annum. As amended in September 2012, the notes mature on the earlier of 1.) 10 business days after delivery by the holder of the note of a notice to maturity, which notice may not be issued prior to August 14, 2013 (which date shall be extended to March 31, 2015 if the Company completes a restructuring of its capital in a manner satisfactory to the holder) or 2.) March 31, 2015. The notes cumulatively are convertible into 100,000 shares of the Company's Series E Preferred Stock. Upon conversion, the holders will also receive 10,000,000 warrants, exercisable at \$0.50 per share of the Company's common stock. The Convertible Notes Payable are secured by any net proceeds received by the Company, after paying any senior indebtedness, in the event any holder of such senior indebtedness forecloses on the common stock of National Asset Management, Inc.

In January 2013, the \$5,000,000 6% convertible notes were converted into 10,000,000 shares of common stock and the related warrants were converted into approximately 6,700,000 shares of common stock and the \$1,800,000 10% convertible notes were fully repaid.

The Company incurred interest expense related to its convertible notes of \$248,000 for the fiscal year ended September 30, 2013. The convertible notes were owed to entities affiliated with four of the Company's directors.

#### **NOTE 12. SUBORDINATED BORROWINGS**

In September 2012, the Company generated proceeds of \$1 million by issuing a subordinated note payable to one of its directors. The note matured on the earlier of 10 business days after delivery by the holder of the note of a notice to maturity-on or after August 14, 2013. The note was secured by any net proceeds received by the Company, after paying any senior indebtedness in the event any holder of such senior indebtedness forecloses on the common stock of NAM. This note was repaid in January 2013.



**NOTE 13. INCOME TAXES**

National files a consolidated federal income tax return and certain combined state and local income tax returns with its subsidiaries. Income taxes consist of the following:

| 2014                        | Federal        | State      | Total          |
|-----------------------------|----------------|------------|----------------|
| Current income tax expense  | \$ 162,000     | \$ 942,000 | \$ 1,104,000   |
| Deferred income tax benefit | (11,308,000)   | (617,000)  | (11,925,000)   |
| Total expense (benefit)     | \$(11,146,000) | \$ 325,000 | \$(10,821,000) |

| 2013                       | Federal   | State | Total     |
|----------------------------|-----------|-------|-----------|
| Current income tax expense | \$ 60,000 | \$ -  | \$ 60,000 |
| Total expense (benefit)    | \$ 60,000 | \$ -  | \$ 60,000 |

The income tax provision (benefit) related to pre-tax income (loss) vary from the federal statutory rate as follows:

|  | Years Ended           |         |
|--|-----------------------|---------|
|  | September 30,<br>2014 | 2013    |
| Statutory federal rate                               | 34.0 %                | -35.0 % |
| State income taxes net of federal income tax benefit | 3.0 %                 | -5.2 %  |
| Permanent differences for tax purposes               | 1.0 %                 | 11.8 %  |
| Change in valuation allowance                        | (176.3 %)             | 28.4 %  |
|  | (138.3 %)             | 0.0 %   |

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

|                                    | September 30, |               |
|------------------------------------|---------------|---------------|
|                                    | 2014          | 2013          |
| Deferred tax assets (liabilities): |               |               |
| Net operating loss carry-forwards  | \$ 11,170,000 | \$ 13,655,000 |
| Federal AMT credit carryforward    | 216,000       | -             |
| Accrued but unpaid bonuses         | -             | 91,000        |
| Fixed assets                       | 519,000       | 608,000       |
| Stock based compensation           | 390,000       | 56,000        |

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|                             |              |              |
|-----------------------------|--------------|--------------|
| Other temporary differences | 274,000      | 93,000       |
| Intangibles                 | (644,000 )   | -            |
| Total deferred tax assets   | 11,925,000   | 14,503,000   |
| Valuation allowance         | -            | (14,503,000) |
| Deferred tax asset          | \$11,925,000 | \$-          |

At September 30, 2014, the Company had available federal net operating loss carryforwards of approximately \$32 million, which includes approximately \$7 million resulting from the Gilman acquisition, and state net operating loss carryforwards of approximately \$7 million, principally from the Gilman acquisition that may be applied against future taxable income and expire at various dates between 2020 and 2033. Carryforwards arising from the Gilman acquisition are subject to annual usage limitation under Section 382 of the Internal Revenue Code. At September 30, 2013, the Company had a deferred tax asset arising substantially from the benefits of a \$34 million net operating loss carryforward and had recorded a valuation allowance for the full amount of this deferred tax asset, since it was more likely than not that the full amount of the deferred tax asset may not be realized. The valuation allowance for the deferred tax asset decreased by \$843,000 during the fiscal year ended September 30, 2013 due principally to the utilization of net operating loss carryforwards from prior years to offset the taxable income of the fiscal year ended September 30, 2013.

In the fourth quarter of fiscal 2014, after utilization of the Company's net operating loss carryforward to offset taxable income for 2014 and the corresponding reversal of a portion of the valuation allowance, the remaining valuation allowance of approximately \$11,925,000, including \$1,809,000 recorded in connection with the acquisition of Gilman, was reversed and recorded as a deferred tax benefit in the consolidated statement of operations. Management's decision for such reversal was based on income from operations in 2014 as well as recent trends and expectations of future profitability. Based on such available evidence, management concluded that it is more likely than not that its deferred tax assets would be realized.

Authoritative guidance for uncertainty in income tax requires the Company to determine whether a tax position is more-likely-than-not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is the greater than 50% likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability or reducing a deferred tax asset related to net operating loss carryforwards. The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company has determined that the guidance for uncertainty in income taxes has no impact on its consolidated financial statements as of September 30, 2014. The Company will recognize tax-related interest and penalties, if applicable, related to liabilities for uncertain tax positions as a component of income tax expense.

#### NOTE 14. COMMITMENTS AND CONTINGENCIES

##### Leases

As of September 30, 2014, the Company leases office space in various states expiring at various dates through August 2021, and is committed under operating leases for future minimum lease payments as follows:

| <b>Fiscal Year</b> | <b>Rental</b>  | <b>Less,</b>    |             |
|--------------------|----------------|-----------------|-------------|
| <b>Ending</b>      | <b>Expense</b> | <b>Sublease</b> | <b>Net</b>  |
|                    |                | <b>Income</b>   |             |
| 2015               | \$3,012,000    | \$ 136,000      | \$2,876,000 |
| 2016               | 2,300,000      | 136,000         | 2,164,000   |
| 2017               | 1,648,000      | 80,000          | 1,568,000   |
| 2018               | 1,095,000      | -               | 1,095,000   |
| 2019               | 425,000        | -               | 425,000     |
| Thereafter         | 587,000        | -               | 587,000     |
|                    | \$9,067,000    | \$352,000       | \$8,715,000 |

The total amount of rent payable under the leases is recognized on a straight line basis over the term of the leases. As of September 30, 2014 and September 30, 2013, the Company has recognized deferred rent payable of \$160,000 and \$220,000, respectively. Rental expense under all operating leases for the years ended September 30, 2014 and September 30, 2013 was \$3,828,000 and \$1,992,000 respectively. Sublease income under all operating subleases for the years ended September 30, 2014 and 2013 was approximately \$153,000 and \$90,000 respectively.

**Litigation and Regulatory Matters**

The Company and its subsidiaries are defendants or respondents in various pending and threatened arbitrations, administrative proceedings, and lawsuits seeking compensatory damages of approximately \$15,000,000. Many of these claimants also seek, in addition to compensatory damages, punitive or treble damages, and all seek interest, costs and fees. These matters arise in the normal course of business. The Company and its subsidiaries intend to vigorously defend themselves in these actions, and the ultimate outcome of these matters cannot be determined at this time.

The Company establishes liabilities for potential losses from complaints, legal actions, government investigations and proceedings where the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, the Company bases its judgments on its knowledge of the situations, consultations with legal counsel and its 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 the Company's 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, the Company cannot predict with certainty the eventual loss or range of loss related to such matters. These claims may be covered by our errors and omissions insurance policy. While the Company will vigorously defend itself 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 the Company's financial position. At September 30, 2014 and 2013, the Company accrued approximately \$440,000 and \$322,000, respectively, for these matter and are included in "Accounts Payable and other Accrued Expenses" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of \$1,542,000 and \$1,022,000 for fiscal years 2014 and 2013, respectively.

## NOTE 15. RELATED PARTY TRANSACTIONS

Between March 2012 and September 2012, the Company issued and sold to National Securities Growth Partners LLC ("NSGP"), the primary principals of which include Messrs. Klein and Fagenson, who are officers and directors of the Company, convertible notes in the aggregate initial principal amount of \$5,000,000 (the "Notes"). The Notes were convertible into units of the Company consisting of (i) the Company's Series E preferred stock, par value \$0.01 per share, which was convertible into shares of Common Stock and (ii) a warrant exercisable for shares of Common Stock. In conjunction with the closing of the private placement in January 2013, the Company entered into a Conversion and Exchange Agreement and a Warrant Exchange Agreement (the "Series E Conversion and Exchange Agreement") with NSGP pursuant to which, among other things, (i) NSGP converted all of the Notes (and all accrued and unpaid interest thereon) into shares of Series E Preferred Stock in accordance with the terms and conditions of the Notes (the "Note Conversion"); (ii) then, following the Note Conversion, NSGP converted all of its Series E Preferred Stock into 10,000,000 shares of Common Stock, and (iii) then, exchanged all of its warrants (10,000,000) to purchase Common Stock for 6,697,140 shares of Common Stock.

On January 25, 2013, Messrs. Klein, Fagenson, Goldwasser and Levin who are officers and/or directors of the Company purchased 1,000,000, 166,666, 66,666 and 25,000 shares of our Common Stock, respectively, in the private placement at a purchase price of \$0.30 per share for an aggregate consideration of \$377,500. Additionally, we issued to Messrs. Klein, Sokolow, and Plimpton 101,214, 101,214 and 506,080 shares of our Common Stock, respectively pursuant to the exchange of 215,741, 215,741, and 1,078,730 warrants, respectively.

The Company used its subsidiary as the placement agent for its capital raising transactions in January 2013 and August 2013. The Company compensated the subsidiary \$370,000 for these transactions for the fiscal year. These transactions were properly disclosed to the SEC and due to the sales commissions that were paid to its registered representatives, the net effect to the firm was de minimus.

Mr. Fagenson is also a party to an Independent Contractor Agreement, dated February 27, 2012, with NSC, whereby in exchange for establishing and maintaining a branch office of NSC in New York City, New York (the "Branch"), Mr. Fagenson receives 50% of any net income accrued at the Branch, which amounted to \$149,000 and \$58,000 as of September 30, 2014 and 2013, respectively. His daughter, Stephanie Fagenson received an annual salary of \$72,000 in each of 2014 and 2013.

M. Klein & Company was engaged during the fiscal year ended 2013 to perform certain evaluation services and to advise the Board on corporate actions. The principal officer engaged to conduct these services is the brother of the Chief Executive Officer and Co-Chairman of the Board. Mark Klein received no direct or indirect compensation as a result of this engagement. The total fees incurred for these services were \$82,000 and \$50,000 in fiscal years 2014 and 2013, respectively.

## NOTE 16. STOCKHOLDERS' EQUITY

### Shares Authorized

The Company's authorized number of shares of common stock is 150,000,000, and its authorized number of shares of preferred stock is 10,000,000 of which the Company has designated 50,000 shares of Series A Preferred Stock, 34,500 shares of Series C Preferred Stock, 100,000 shares of Series D Preferred Stock, and 200,000 shares of Series E Preferred Stock, none of which are outstanding at September 30, 2014 and 2013.

### Issuance of shares of common stock pursuant to a private placement

In January 2013 the Company issued 29,451,596 shares of common stock for an aggregate purchase price of approximately \$8,562,000, net of expenses. The Company used the proceeds from the sale of the shares to repay certain outstanding indebtedness and for general corporate, working capital and net capital purposes and associated and reasonable costs and fees relating to the transaction.

In August 2013 the Company issued 10,583,330 shares of common stock for an aggregate purchase price of approximately \$3,016,000, net of expenses. The Company used the proceeds from the sale of the shares toward the purchase consideration in the merger with Gilman and for general corporate, working capital and net capital purposes and associated and reasonable costs and fees relating to the transaction.

Issuance of shares of common stock to satisfy certain liabilities

During fiscal 2013, the Company issued 1,000,000 shares of its common stock to satisfy certain liabilities amounting to \$313,000 pertaining to customer settlements. The fair value of the shares was based on the Company's quoted trading price at the date the agreement was executed.

Series C Convertible Preferred Stock

On July 12, 2010, the Company issued 34,169 shares of Series C Preferred Stock to certain investors in consideration of the conversion of \$1.7 million in subordinated financing. The Series C shares issued pursuant to this transaction were converted into 3,416,691 shares of the Company's common stock in January 2013.

Series D Convertible Preferred Stock

On September 29, 2010, the Company issued 60,000 shares of Series D Preferred Stock to certain investors in consideration of \$3,000,000, of which \$1,334,000 was a receivable. This amount was collected in October 2010. The Series D shares issued pursuant to this transaction were converted into 6,000,000 shares of the Company's common stock in January 2013.

Series E Convertible Preferred Stock

In January 2013, the Company entered into a Conversion and Exchange Agreement with the holder (the "Series E Holder") of convertible notes in the aggregate initial principal amount of \$5,000,000 (the "Notes") pursuant to which, among other things, (i) the Series E Holder converted all of the Notes (and all accrued and unpaid interest thereon) into shares of Series E Preferred Stock, par value \$0.01 per share, in accordance with the terms and conditions of the Notes (the "Note Conversion"); and (ii) then the Series E Holder converted all of its Series E Preferred Stock into 10,000,000 shares of our common stock (the "Series E Conversion").

Grant of Restricted Stock Units

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On September 19, 2013, the Company granted 1,865,450 restricted stock units (“RSU”) of which 1,157,750 RSU's were to employees and 707,700 RSU's were to independent advisors, as per its 2013 Omnibus Incentive Plan. One RSU gives the right to one share of the Company’s common stock. The vesting rate is 1/3 upon grant date and 1/3 every year thereafter provided the grantee has been continuously employed by the Company.

During the year ended September 30, 2014 and 2013, the Company recorded stock based compensation expense of \$253,000 and \$240,000, respectively related to RSU’s.

A summary of the Company's non-vested restricted stock units for the year ended September 30, 2014 is as follows:

|   | Shares    | Weighted<br>Average<br>Grant Due<br>Fair Value * |
|---|-----------|--|
| Non-vested restricted stock units at October 1, 2013    | 1,243,633 | \$ 472,000                                       |
| Vested  | (577,895  | ) 253,000  |
| Forfeited   | (87,843   | ) 39,000   |
| Non-vested restricted stock units at September 30, 2014 | 577,895   | \$ 253,000                                       |

\*For independent advisors, the weighted average grant date fair value is calculated as the weighted average vesting date fair value, or if not vested the value at the balance sheet date.

At September 30, 2014, there was \$253,000 of unrecognized compensation expense related to unvested RSU’s, which is expected to be recognized in 2015.



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.

The following option activity occurred under our plan during 2014 and 2013:

|  | Options    | Weighted<br>Average<br>Exercise<br>Price<br><br>Per Share | Weighted<br>Average<br>Grant-Date<br>Fair Value<br><br>Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------|---|--|---|---------------------------------|
| Outstanding at September 30, 2012            | 1,312,002  | \$ 1.64   |  | 2.17  | \$ -                            |
| Granted                                      | 9,300,000  | 0.69  | \$ 0.08  |   |                                 |
| Forfeited or expired                         | (312,002 ) | 1.67  |  |   |                                 |
| Outstanding at September 30, 2013            | 10,300,000 | .66   | 0.08   | 6.50  | \$ -                            |
| Granted                                      | 1,880,000  | 0.53  | 0.22   | 8.56  |                                 |
| Outstanding at September 30, 2014            | 12,180,000 | 0.64  | 0.10   | 4.69  | \$ 104,000                      |
| Vested and exercisable at September 30, 2014 | 9,200,000  | \$ 0.66   | \$ 0.18  | 3.78  | \$ -                            |

During 2014 and 2013 the Company recognized compensation expense of \$871,000 and \$139,000, respectively related to stock options. As of September 30, 2014, the Company had approximately \$185,000 of unamortized compensation costs related to non-vested options, which will be recognized in 2015.

The grant date fair value of options granted during the years ended September 30, 2014 and 2013 was \$414,000 and \$838,000 respectively. The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions:

|                     | 2014    | 2013    |
|---------------------|---------|---------|
| Dividend yield      | 0.00 %  | 0.00 %  |
| Expected volatility | 75.00 % | 75.00 % |

|                          |        |        |
|--------------------------|--------|--------|
| Risk-free interest rate  | 1.16 % | 0.58 % |
| Expected life (in years) | 5.26   | 3.00   |

Warrants

The following tables summarize information about warrant activity during 2014 and 2013:

|   | Warrants     | Weighted<br>Average<br>Exercise<br>Price<br>Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|---|--------------|---|---|
| Outstanding at September 30, 2012                 | 14,719,941   | \$ 0.56   | 2.84  |
| Granted   | -            | -   |   |
| Converted   | (12,727,436) | 0.98  |   |
| Exercised   | -            | -   |   |
| Forfeited or expired                              | (1,095,750 ) | 2.22  |   |
| Outstanding at September 30, 2013                 | 896,755      | \$ 0.50   | 1.73  |
| Granted   | -            | -   |   |
| Converted   | -            | \$ -  |   |
| Exercised   | -            | -   |   |
| Forfeited or expired                              | -            | \$ -  |   |
| Outstanding and exercisable at September 30, 2014 | 896,755      | \$ 0.50   | 0.73  |

The 896,755 warrants outstanding at September 30, 2014, all of which were exercisable, have an exercise price of \$0.50 of which 250,000 expire in June 2015 and 646,755 expire in July 2015.

As of September 30, 2014, the aggregate intrinsic value of the Company's outstanding and exercisable warrants was \$0.

#### Other

In 2003, prior to National's acquisition of vFinance, Inc. and its subsidiaries in 2008, vFinance, Inc. had deposited in escrow a stock certificate representing 4,500,000 shares of its common stock to secure an obligation to make payments aggregating \$250,000 under a settlement agreement. The settlement obligation was paid in full in 2006 and vFinance was then entitled to the return of all of the shares. Such shares represented 630,000 post-acquisition shares of National's common stock but were not considered outstanding by National. However, the Company believes that the transfer agent escheated the shares to the State of Florida which it sold for proceeds of \$128,000 and remitted the proceeds to the escrow agent. In December 2014, National received such proceeds from the escrow agent.

The Company has recorded a receivable from the escrow agent of \$128,000 at September 30, 2014 which is included in other assets in the consolidated statement of financial condition, with a corresponding credit to stockholders' equity. The Company has considered such shares outstanding for the entire fiscal year ended September 30, 2014 for purposes of computing earnings per share. Such shares, if considered outstanding for the entire year ended September 30, 2013, would not affect the Company's earnings per share as previously reported.

#### **NOTE 17. NET CAPITAL REQUIREMENTS OF BROKER-DEALER SUBSIDIARIES**

National Securities is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. During 2014, pursuant to a directive from FINRA, National Securities changed from using the alternative method of computing net capital to the aggregate indebtedness method. At September 30, 2014, National Securities had net capital of \$8,698,839 which was \$6,682,242 in excess of its required net capital of \$2,016,597. National Securities percentage of aggregate indebtedness to net capital was 347.7%. National Securities claims exemption from the provisions of the SEC's Rule 15c3 3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

vFinance Investments is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At September 30, 2014, vFinance Investments had net capital of \$3,242,156 which was \$2,242,156 in excess of its required net capital of \$1,000,000. vFinance Investments percentage of aggregate indebtedness to net capital was 73.2%. vFinance Investments claims exemption from the provisions of the SEC's Rule 15c3 3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

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 18. OFF BALANCE SHEET RISK AND 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 uses clearing brokers to process transactions and maintain customer accounts for the Company on a fee basis. 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/or (iii) charged to operations, based on the particular facts and circumstances.

The Company maintains cash in bank deposits, which, at times, may exceed federally insured limits. The Company has not experienced and does not expect to experience losses on such accounts.

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.

#### **NOTE 19. EMPLOYEE BENEFITS**

In September 2011, the Company created a new defined contribution 401(k) plan (the "Plan") merging the two plans originally formed prior to the merger of National and vFinance effective October 1, 2011. Under the Plan, employees can elect to defer up to 75% of eligible compensation, subject to certain limitations, by making voluntary contributions to the Plan. The Company's contributions are made at the discretion of the Board of Directors. For the fiscal years ended September 30, 2014 and 2013 the Company made no contributions to the plan.

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**NOTE 20. SEGMENT INFORMATION**

The Company has two reportable segments. The brokerage and advisory services segment includes broker-dealer and investment advisory services, sale of insurance products and licensed mortgage brokerage services provided by the Broker-Dealer Subsidiaries, NAM, National Insurance, Prime Financial and GC. The tax and accounting services segment includes tax preparation and accounting services provided by Gilman.

Corporate pre-tax loss consists of certain expenses that have not been allocated to reportable segments.

Segment information for the years ended December 31, 2014 and 2013 is as follows:

|                               | <b>Brokerage<br/>and<br/>Advisory<br/>Services</b> | <b>Tax and<br/>Accounting<br/>Services</b> | <b>Corporate</b> | <b>Total</b>   |
|-------------------------------|--|--|------------------|----------------|
| <b>2014</b>                   |  |  |                  |                |
| Revenues                      | \$ 176,195,000                                     | \$ 8,097,000                               | \$-              | \$ 184,292,000 |
| Pre-tax income (loss)         | 11,189,000   | 799,000                                    | (4,166,000 ) (a) | 7,822,000      |
| Identifiable assets           | 44,222,000   | 2,907,000                                  | 17,664,000 (b)   | 64,793,000     |
| Depreciation and amortization | 754,000  | 73,000                                     | 309,000          | 1,136,000      |
| Interest                      | 33,000   | -  | -                | 33,000         |
| Capital expenditures          | 109,000  | 55,000                                     | 40,000           | 204,000        |
| <b>2013</b>                   |  |  |                  |                |
| Revenues                      | \$ 127,583,000                                     | \$-  | \$-              | \$ 127,583,000 |
| Pre-tax (loss) income         | 3,964,000  | -  | (2,339,000 ) (a) | 1,625,000      |
| Identifiable assets           | 22,632,000   | -  | 6,978,000 (c)    | 29,511,000     |
| Depreciation and amortization | 726,000  | -  | 200,000          | 926,000        |
| Interest                      | 39,000   | -  | 209,000          | 248,000        |
| Capital expenditures          | 241,000  | -  | -                | 241,000        |

(a) Consists of executive salaries and other expenses not allocated to reportable segments by management.

(b) Consists principally of deferred tax asset.

(c) Consists principally of cash.

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