NATIONAL HOLDINGS CORP
Form 10-Q
August 16, 2010

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

FORM 10-Q

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

For the Quarter Ended June 30, 2010 Commission File Number 001-12629

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

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

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

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 x No o

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 o No o

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

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company x

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

As of August 13, 2010 there were 17,289,204 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION
FORM 10-Q
QUARTERLY PERIOD ENDED JUNE 30, 2010

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS	June 30, 2010	September 30, 2009
Current Assets	(unaudited)	(see note below)
Cash	$4,398,000	$6,493,000
Deposit with clearing organizations	1,159,000	1,212,000
Receivables from broker dealers and clearing organizations	3,126,000	4,910,000
Other receivables, net of allowance for uncollectible accounts of $372,000 and $402,000 at June 30, 2010 and September 30, 2009 respectively	519,000	332,000
Advances to registered representatives - Current portion	1,530,000	1,784,000
Securities owned: marketable – at market value	794,000	631,000
Securities owned:nonmarketable – at fair value	75,000	60,000
Total Current Assets	11,601,000	15,422,000
Advances to registered representatives - Long term portion	164,000	1,096,000
Fixed assets, net	966,000	1,163,000
Secured demand note	500,000	500,000
Intangible assets, net	1,863,000	2,329,000
Other assets	1,172,000	1,132,000
Total Assets	$16,266,000	$21,642,000
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Laibilities		
Payable to broker dealers and clearing organizations	$373,000	$299,000
Securities sold, but not yet purchased, at market	163,000	4,000
Accounts payable, accrued expenses and other liabilities - Current portion	9,786,000	14,162,000
Notes payable	500,000	500,000
Total Current Liabilities	10,822,000	14,965,000
Accrued expenses and other liabilities - Long term portion	665,000	719,000
Convertible notes payable, net of debt discount of $740,000 and $1,036,000 at June 30, 2010 and September 30, 2009 respectively	5,260,000	4,964,000
Total Liabilities	16,747,000	20,648,000
Subordinated borrowings	2,550,000	850,000
Stockholders' Equity		
Preferred stock, $.01 par value, 200,000 shares authorized; 50,000 shares designated as Series A and 20,000 shares designated as Series B	-	-
Series A 9% cumulative convertible preferred stock, $.01 par value, 50,000 shares authorized; 46,050 shares issued and outstanding (liquidation preference: $4,605,000) at June 30, 2010 and 37,550 shares issued and outstanding (liquidation preference: $3,755,000) at September 30, 2009	-	-
	-	-

Series B 10% cumulative convertible preferred stock, $.01 par value, 20,000 shares authorized; 0 shares issued and outstanding (liquidation preference: $0 at June 30, 2010 and September 30, 2009, respectively		
Common stock, $.02 par value, 50,000,000 shares authorized; 17,276,704 and 16,422,538 shares issued and outstanding, at June 30, 2010 and September 30, 2009, respectively	346,000	343,000
Additional paid-in capital	42,139,000	41,195,000
Accumulated deficit	(45,516,000)	(41,394,000)
Total Stockholders' Equity (Deficit)	(3,031,000)	144,000
Total Liabilities and Stockholders' Equity (Deficit)	$16,266,000	$21,642,000

Note: The balance sheet at September 30, 2009 has been derived from the audited consolidated financial statements at that date.

See accompanying notes to unaudited condensed consolidated financial statements

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

	-------- Three Months Ended ---------		-------- Nine Months Ended ---------	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Commissions	$19,759,000	$22,337,000	$57,346,000	$53,168,000
Net dealer inventory gains	3,336,000	5,077,000	11,199,000	16,157,000
Investment banking	1,056,000	896,000	4,095,000	2,046,000
Total commission and fee revenues	24,151,000	28,310,000	72,640,000	71,371,000
Interest and dividends	746,000	252,000	1,856,000	1,285,000
Transfer fees and clearing services	1,912,000	2,726,000	6,672,000	6,997,000
Other	1,673,000	1,121,000	4,534,000	3,783,000
Total Revenues	28,482,000	32,409,000	85,702,000	83,436,000
Expenses:				
Commissions	22,451,000	26,061,000	66,067,000	64,526,000
Employee compensation and related expenses	2,923,000	2,985,000	9,063,000	9,029,000
Clearing fees	576,000	402,000	982,000	1,371,000
Communications	1,023,000	1,245,000	3,025,000	3,137,000
Occupancy and equipment costs	1,191,000	954,000	3,859,000	3,786,000
Professional fees	763,000	548,000	2,129,000	1,917,000
Interest	459,000	291,000	1,056,000	925,000
Taxes, licenses, registration	443,000	414,000	1,306,000	1,016,000
Other administrative expenses	684,000	377,000	1,951,000	1,667,000
Total Expenses	30,513,000	33,277,000	89,438,000	87,374,000
Net loss	(2,031,000)	(868,000)	(3,736,000)	(3,938,000)
Preferred stock dividends	(103,000)	(96,000)	(391,000)	(265,000)
Net loss attributable to common stockholders	$(2,134,000)	$(964,000)	$(4,127,000)	$(4,203,000)
Net loss per common share				
Basic:				
Net loss attributable to common stockholders	$(0.12)	$(0.06)	$(0.24)	$(0.25)
Diluted:				
Net loss attributable to common stockholders	$(0.12)	$(0.06)	$(0.24)	$(0.25)
Weighted average number of shares outstanding				
Basic	17,276,704	16,930,924	17,209,396	16,635,442
Diluted	17,276,704	16,930,924	17,209,396	16,635,442

See accompanying notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Cash flows from operating activities		
Net loss	$(3,736,000)	$(3,938,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,005,000	1,017,000
Amortization of deferred financing costs	22,000	41,000
Amortization of note discount	796,000	296,000
Compensatory element of common stock options issuance	409,000	678,000
Compensatory element of warrant issuance	152,000	-
Provision for bad debt	(30,000)	-
Unrealized gain on securities owned	44,000	(142,000)
Changes in assets and liabilities		
Deposits with clearing organizations	52,000	(51,000)
Receivables from broker-dealers, clearing organizations and others	1,784,000	(651,000)
Other receivables	(156,000)	(333,000)
Advances to registered representatives	1,186,000	934,000
Securities owned: marketable, at market value	(207,000)	541,000
Securities owned: non-marketable, at fair value	(16,000)	(7,000)
Other assets	(63,000)	295,000
Accounts payable and accrued expenses	(4,429,000)	1,022,000
Payable to broker dealers and clearing organizations	74,000	(451,000)
Securities sold, but not yet purchased, at market	159,000	13,000
Net cash used in operating activities	(2,954,000)	(736,000)
Cash flows from investing activities		
Purchase of fixed assets	(341,000)	(598,000)
Net cash used in investing activities	(341,000)	(598,000)
Cash flows from financing activities		
Repayment of notes payable	(500,000)	(500,000)
Net proceeds from subordinated borrowings	1,700,000	100,000
Proceeds from issuance of common stock	-	502,000
Fees associated with issuance of common stock	-	(234,000)
Net cash used in provided by financing activities	1,200,000	(132,000)
Net decrease in cash	(2,095,000)	(1,466,000)
Cash balance		
Beginning of the period	6,493,000	7,387,000
End of the period	$4,398,000	$5,921,000
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$578,000	$574,000

Income taxes	$-	$80,000
Supplemental disclosures of noncash financing activities		
Preferred stock dividends	$391,000	$265,000

See accompanying notes to unaudited condensed consolidated financial statements

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of National Holdings Corporation ("National" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements as of June 30, 2010 and for the periods ended June 30, 2010 and June 30, 2009 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related footnotes included thereto in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

NOTE 2. CONSOLIDATION

The condensed consolidated financial statements include the accounts of National and its wholly owned subsidiaries. National operates primarily through National Securities Corporation ("National Securities"), vFinance Investments, Inc. ("vFinance Investments") and EquityStation, Inc. ("EquityStation") (collectively, the "Broker Dealer Subsidiaries"). The Broker Dealer Subsidiaries conduct a national securities brokerage business through its main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington.

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

In July 1994, National Securities formed a wholly owned subsidiary, National Asset Management, Inc., a Washington corporation ("NAM"). NAM is a federally-registered investment adviser providing asset management advisory services to high net worth clients for a fee based upon a percentage of assets managed. In March 2008, all of the issued and outstanding stock of NAM was transferred from National Securities to National. National formed a new wholly owned subsidiary, National Insurance Corporation, a Washington corporation ("National Insurance") in the third quarter of fiscal year 2006. National Insurance provides fixed insurance products to its clients, including life insurance, disability insurance, long term care insurance and fixed annuities. National Insurance finalized certain requisite state registrations during the second quarter of fiscal year 2007 and commenced business operations that to date have been de minimus. vFinance Lending Services, Inc. ("vFinance Lending"), originally formed as a wholly owned subsidiary of vFinance, Inc. was established in May 2002. It is a mortgage lender focused primarily on the commercial sector, providing bridge loans and commercial mortgages through its nationwide network of lenders. Its operations to date have been de minimus. All significant inter-company accounts and transactions have been eliminated in consolidation.

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NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of National and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Estimates

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

Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the presentation in the 2010 financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

Revenue Recognition

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

Customer security transactions and the related commission income and expense are recorded on a trade date basis. Customers who are financing their transaction on margin are charged interest. The Company’s margin requirements are in accordance with the terms and conditions mandated by its clearing firms, National Financial Services LLC (“NFS”), Penson Financial Services, Inc. (“Penson”), Legent Clearing LLC (“Legent”), Fortis Securities, LLC (“Fortis”) and Rosenthal Collins Group, LLC. (“Rosenthal”). The interest is billed on the average daily balance of the margin account.

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

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

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

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

Cash and Cash Equivalents

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

Fixed Assets

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

Income Taxes

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

Fair Value of Financial Instruments

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

Impairment of Long-Lived Assets

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

Common Stock Purchase Warrants

The Company accounts for the issuance of common stock purchase warrants issued in connection with capital financing transactions in accordance with professional standards for "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". In accordance with professional standards, the

Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assessed the classification of its derivative financial instruments as of June 30, 2010, which consist of common stock purchase warrants, and determined that such derivatives are accounted for in accordance with accounting standards.

Convertible Instruments

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

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

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

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

Net Income (Loss) per Common Share

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

	Three Months Ended	
	June 30, 2010	June 30, 2009
Numerator:		
Net loss	$ (2,031,000)	$ (868,000)
Preferred stock dividends	(103,000)	(96,000)
Numerator for basic earnings per share-net income (loss) attributable to common stockholders - as reported	(2,134,000)	(964,000)
Effect of dilutive securities:		
Series A preferred stock	-	-
Numerator for diluted earnings per share-net income (loss) attributable to common stockholders - as adjusted	$ (2,134,000)	$ (964,000)
Denominator:		
Denominator for basic earnings per share--weighted average shares	17,276,704	16,930,924
Effect of dilutive securities:		
Assumed conversion of Series A preferred stock	-	-
Stock options	-	-
Warrants	-	-
Dilutive potential common shares	-	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	17,276,704	16,930,924
Net loss available to common stockholders		
Basic and diluted	$ (0.12)	$ (0.06)

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Numerator:		
Net loss	$ (3,736,000)	$ (3,938,000)
Preferred stock dividends	(391,000)	(265,000)
Numerator for basic earnings per share-net income (loss) attributable to common stockholders - as reported	(4,127,000)	(4,203,000)
Effect of dilutive securities:		
Series A preferred stock	-	-
Numerator for diluted earnings per share-net income (loss) attributable to common stockholders - as adjusted	$ (4,127,000)	$ (4,203,000)
Denominator:		
Denominator for basic earnings per share--weighted average shares	17,209,396	16,635,442
Effect of dilutive securities:		
Assumed conversion of Series A preferred stock	-	-
Stock options	-	-
Warrants	-	-
Dilutive potential common shares	-	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	17,209,396	16,635,442
Net loss available to common stockholders		
Basic and diluted	$ (0.24)	$ (0.25)

For the three and nine month periods ended June 30, 2010, 12,941,757 common share equivalents were excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive. For the three and nine month periods ended June 30, 2009, 12,163,057 common share equivalents were excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive.

The following table sets forth the common share equivalents that were excluded from the calculation as of June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Stock options	3,445,507	3,373,524
Warrants	2,437,250	1,977,973
Assumed conversion of:		
Series A Preferred Stock	3,684,000	3,436,560

Notes	3,375,000	3,375,000
Dilutive potential common shares	12,941,757	12,163,057

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Stock-Based Compensation

Effective October 1, 2005, the Company adopted ASC Topic 718 accounting for “Share Based Payment.” This topic addresses all forms of share based payment (“SBP”) awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under Topic 718, SBP awards will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period. During the three months ended June 30, 2010, the Company did not grant any stock options. During the nine months ended June 20, 2010, the Company granted 340,000 options including 40,000 to outside directors. Options granted by the Company to outside directors vest in full after six months from issuance. Other options granted to employees typically vest over four years and have a 5-year life and are exercisable at the closing share price on the date of grant. A charge of approximately $113,000 and $237,000 was recorded for the three months ended June 30, 2010 and 2009, respectively, and a charge of approximately $409,000 and $678,000 was recorded in the nine months ended June 30, 2010 and 2009, respectively, relating to the amortization of the fair value associated with all remaining stock option grants and restricted stock grants.

The Black-Scholes option valuation model is used to estimate the fair value of the options granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. For example, the expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted. Options issued under the Company's option plans have characteristics that differ from traded options. In management's opinion, this valuation model does not necessarily provide a reliable single measure of the fair value of its employee stock options.

A summary of the stock option activity as of June 30, 2010, and changes during the nine month period then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2009	5,912,165	$ 1.55	3.21	$ 2,500
Granted	340,000	0.70	4.19	-
Terminated and Expired	992,572	1.33	0.18	-
Outstanding at June 30, 2010	5,259,593	$ 1.54	3.06	$ -
Exerciseable at June 30, 2010	3,485,507	$ 1.54	2.54	$ -

As of June 30, 2010, there was approximately $508,000 of total unrecognized deferred compensation costs related to share-based compensation arrangements. The Company has experienced a historic forfeiture rate of approximately 26% on previously granted stock options and expects that future forfeitures will be consistent with this experience.

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A summary of the status of the Company's nonvested shares as of June 30, 2010, and changes during the nine month period then ended is presented below:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2009	1,916,741	$ 0.61
Granted	340,000	$ 0.50
Vested	383,933	$ 1.94
Expired	58,775	$ 1.08
Nonvested at June 30, 2010	1,814,033	$ 0.77

Concentrations of Credit Risk

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

The Company maintains cash with major financial institutions. All interest bearing accounts are insured up to $250,000. On October 14, 2008 the FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. As of July 2010 this unlimited insurance coverage was made permanent. As a result of this coverage the Company believes it is not presently exposed to any significant credit risks for cash.

Other Receivables

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

Advances to Registered Representatives

Advances are given to certain registered representatives as an incentive for their affiliation with the Broker Dealer Subsidiaries. The representative signs an independent contractor agreement with the Broker Dealer Subsidiaries for a specified term, typically a three-year period. The advance is then amortized on a straight-line basis over the life of the broker's agreement with the Broker Dealer Subsidiaries, and is included in commission expense in the accompanying consolidated statements of operations. In the event a representative's affiliation terminates prior to the fulfillment of their contract, the representative is required to repay the unamortized balance.

Securities Owned

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

Other Assets

Other assets consist primarily of prepaid expenses and lease deposits.

Legal and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. SFAS No. 5, Accounting for Contingencies, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our results of operations, financial position, or our cash flows.

Recent Accounting Pronouncements

In addition to those pronouncements shown below, other pronouncements may have been issued but deemed by management to be outside the scope of relevance to the Company.

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements.” This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality,” and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered “essential to the functionality.” The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In November 2009, the FASB issued an ASU regarding accounting for stock dividends, including distributions to shareholders with components of stock and cash. This ASU clarifies that the stock portion of a distribution to shareholders that contains components of cash and stock and allows shareholders to select their preferred form of the distribution (with a limit on the amount of cash that will be distributed in total) should be considered a stock dividend and included in EPS calculations as a share issuance. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity’s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of this ASU did not have any material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

NOTE 4. CLEARING AGREEMENTS

On February 1, 2010, National Securities Corporation and vFinance Investments, Inc. entered into separate but coterminous clearing agreements with National Financial Services, LLC. NFS remains our primary clearing firm, and as a result of these agreements, National Securities Corporation's existing agreement, which was not due to expire until April 2013, has been terminated and is replaced by this new agreement with a termination date of February 1, 2015. vFinance Investments, Inc. clearing agreement ended on March 14, 2009, but the Company had been operating under that agreement while negotiating this new agreement. The Company expects these new agreements to have a favorable effect on its clearing costs. The clearing agreement includes a termination fee if either broker dealer terminates the agreement without cause. The Broker Dealer Subsidiaries currently have clearing agreements with NFS, Penson, Legent, Fortis and Rosenthal.

NOTE 5. BROKER-DEALERS AND CLEARING ORGANIZATIONS RECEIVABLES AND PAYABLES

At June 30, 2010 and September 30, 2009, the receivables of $3,126,000 and $4,910,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions. At June 30, 2010 and September 30, 2009, the amounts payable to broker-dealers and clearing organizations of $373,000 and $299,000, respectively, represent amounts owed to clearing firms or other broker dealers for fees on transactions and payables to other broker dealers associated with tri-party clearing agreements.

NOTE 6. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

The following table shows the quoted market values of securities owned by the Company, and securities sold but not yet purchased by the Company, as of June 30, 2010:

	Securities owned	Securities sold, but not yet purchased
Corporate stocks	$ 109,000	$ 162,000
Corporate bonds	5,000	-
Government obligations	680,000	-
Non-marketable securities	75,000	1,000
	$ 869,000	$ 163,000

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

	Securities owned	Securities sold, but not yet purchased
Corporate stocks	$ 86,000	$ 4,000
Corporate bonds	3,000	-
Government obligations	542,000	-
Non-marketable securities	60,000	-
	$ 691,000	$ 4,000

Fair Value Measurements

Securities owned at Fair Value as of June 30, 2010

Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$ 109,000	$ -	$ -	$ 109,000
Corporate bonds	5,000	-	-	5,000
Government obligations	680,000	-	-	680,000
Non-marketable securities	-	75,000	-	75,000
	$ 794,000	$ 75,000	$ -	$ 869,000

Securities owned at Fair Value as of September 30, 2009

Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$ 86,000	$ -	$ -	$ 86,000
Corporate bonds	3,000	-	-	3,000
Government obligations	542,000	-	-	542,000
Non-marketable securities	-	60,000	-	60,000
	$ 631,000	$ 60,000	$ -	$ 691,000

Securities sold, but not yet purchased at Fair Value as of June 30, 2010

Securities sold, but not yet purchased at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$ 162,000	$ -	$ -	$ 162,000
Corporate bonds	-	-	-	-
Government obligations	-	-	-	-
Non-marketable securities	-	1,000	-	1,000
	$ 162,000	$ 1,000	$ -	$ 163,000

Securities sold, but not yet purchased at Fair Value as of September 30, 2009

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

NOTE 7. INTANGIBLE ASSETS

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

Amortization of the Company's intangible asset for the three months and nine months ended June 30, 2010 was $155,000 and $465,000, respectively, and amortization of the Company's intangible asset for the three months and nine months ended June 30, 2009 was $155,000 and $465,000, respectively.

NOTE 8. OTHER ASSETS

Other assets as of June 30, 2010 and September 30, 2009, respectively, consist of the following:

	30-Jun-10	September 30, 2009
Pre-paid expenses	$ 744,000	$ 659,000
Deposits	183,000	184,000
Investments in unaffiliated entity	162,000	162,000
Deferred financing costs	82,000	114,000
Other	1,000	13,000
Total	$ 1,172,000	$ 1,132,000

NOTE 9. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Accounts payable, accrued expenses and other liabilities as of June 30, 2010 and September 30, 2009, respectively, consist of the following:

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	June 30, 2010	September 30, 2009
Commissions payable	$ 4,856,000	$ 7,745,000
Deferred clearing fee credits	223,000	484,000
Telecommunications vendors payable	97,000	82,000
Legal payable	595,000	663,000
Deferred rent payable	372,000	140,000
Accrued compensation	695,000	757,000
Capital lease liability	491,000	703,000
Other vendors	3,122,000	4,307,000
Total	$ 10,451,000	$ 14,881,000

NOTE 10. CONVERTIBLE NOTES PAYABLE

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

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

During June 2010, the lender agreed to waive certain covenants associated with its prior financings in consideration of the issuance of warrants to purchase an aggregate 500,000 shares of common stock at an exercise price of $0.50 per share. The warrants expire in June 2015. In the event the Company does not prepay the notes, the lender is only entitled to exercise 250,000 warrants.

The following table summarizes convertible notes payable at June 30, 2010 and September 30, 2009:

	June 30, 2010	September 30, 2009
10% convertible notes payable	$ 6,000,000	$ 6,000,000
Less: Debt discount	(740,000)	(1,036,000)
	$ 5,260,000	$ 4,964,000

The Company incurred interest expense related to its convertible notes of approximately $148,000 and $299,000 for the three and nine months ended June 30, 2010 and June 30, 2009, respectively.

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NOTE 11. NOTES PAYABLE – RELATED PARTY

In February 2007, the Company completed a financing transaction under which certain investors purchased 10% promissory notes in the principal amount of $1.0 million, with warrants to purchase an aggregate of 250,000 shares of common stock at an exercise price of $1.40 per share. The promissory notes matured in February 2009, and had a stated interest rate of 10% per annum. The Company obtained forbearance agreements from the lenders and as a result, re-priced some of the warrants down to an exercise price of $0.75 per share. The Company recalculated the fair value of the warrants and took an incremental charge of approximately $46,000 recorded as interest expense, in accordance with professional standards.
During 2009 the Company repaid $500,000 of the notes payable and the other $500,000 was extended to a maturity of June 2010 at a reduced interest rate of 7%. During June 2010, the lender extended the maturity of the note to March 2011 in consideration of a warrant to purchase 225,000 shares of common stock at an exercise price of $0.50 per share. The warrant expires in June 2015.

The Company has fully amortized the debt discount associated with these notes and an expense of $41,000 was charged to interest expense in 2009. Such amortization had been included in “Interest” in previous years, in the accompanying consolidated financial statements.

The following table summarizes notes payable at June 30, 2010 and September 30, 2009:

	June 30, 2010	September 30, 2009
7% promissory notes payable	$ 500,000	$ 500,000
	$ 500,000	$ 500,000

This note outstanding on June 30, 2010 matures on March 31, 2011. This indebtedness is owned by Christopher Dewey, who serves as a member of our Board of Directors. The Company incurred interest expense related to its note of approximately $9,000 and $17,000 for the three and nine months ended June 30, 2010, respectively, and approximately $12,000 and $24,000 for the three and nine months ended June 30, 2009, respectively.

During June 2010, the lender extended the maturity of the note to March 2011 in consideration of the issuance of a warrant to purchase 225,000 shares of common stock at an exercise price of $0.50 per share. The warrant expires in June 2015.

NOTE 12. SECURED DEMAND NOTE / SUBORDINATED BORROWINGS

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

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

In June 2009, National Securities was approved by the FINRA to receive a Subordinated loan from Legent for $100,000. This loan was granted subsequent to National Securities signing a clearing agreement with Legent to clear a portion of the business. This loan is forgivable after one year and National Securities bringing over a certain number of assets to the Legent clearing platform. In August 2010, National Securities received formal notification of the forgiveness of this debt.

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

NOTE 13. SUBORDINATED BORROWINGS-Related Parties

In June 2010, the Company generated proceeds of $1.7 million in consideration from issuing notes payable bearing interest at an annual rate of 5%. The notes mature in July 2010 are unsecured and subordinated to exiting senior indebtedness of the Company. The Notes were convertible into units of the Company (the "Units") consisting of (a) a new class of Preferred Stock of the Company convertible into shares of our common stock, $0.02 par value per share (the "Common Stock") at $0.50 per share and (b) a warrant exercisable at $0.50 for shares of Common Stock equal to 100% of the shares of Common Stock underlying the Preferred Stock issued in a subsequent financing of the Company.

In July 2010, the Company issued a total of 34,617 shares of Series C preferred stock in consideration of the conversion of the principal and accrued interest underlying such subordinated borrowing. The Series C preferred stock is convertible into 3,416,691 shares of the Company's common stock. The Series C preferred stock bears a liquidation preference of approximately $1,731,000 upon liquidation or sale. In connection with the issuance of the Series C preferred stock, the Company issued warrants to purchase 3,416,692 shares of common stock, with an exercise price of $0.50 per share. The warrants vested 33 1/3% on the date of grant and continue to vest at a rate of a 33 1/3% per year on the first and second anniversary thereafter. The warrants expire five years from the date of exercisability.

NOTE 13. COMMITMENTS AND CONTINGENCIES

During the quarter ended June 30, 2010, there were no significant developments in the Company's legal proceedings. For a detailed discussion of the Company's legal proceedings, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

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The Company's subsidiaries are defendants in various arbitrations and administrative proceedings, lawsuits and claims together alleging damages of approximately $10,157,000. Additionally, the Company has been named in four class actions lawsuits which have no specific damages alleged, and the Company is in the process of determining its exposure in these matters. The Company believes all such claims are substantially without merit and estimates, to the extent that it can, that its aggregate liability from these pending actions is less than $900,000 (exclusive of fees, costs and unspecified punitive damages related to certain claims and inclusive of expected insurance coverage). The Company intends to vigorously defend itself in these actions and arbitrations, and believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at June 30, 2010 and 2009, is $319,000 and $290,000 (primarily legal fees), 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 $311,000 and $176,000 for the third quarter of fiscal year 2010 and 2009, respectively, and $655,000 and $460,000 for the first nine months of fiscal year 2010 and 2009, respectively.

NOTE 14. DIVIDENDS ON CONVERTIBLE PREFERRED STOCK

The holders of the Company's Series A convertible preferred stock, that are convertible into the Company's common stock at $1.25 per share, are entitled to receive dividends on a quarterly basis at a rate of 9% per annum, per share. Such dividends are cumulative and accumulate whether or not declared by the Company's Board of Directors, but are payable only when and if declared by the Company's Board of Directors. In March 2010, the Company's Board of Directors declared an in-kind dividend in the aggregate of 3,093 shares of Series A preferred stock, in payment of approximately $387,000 of dividends accrued through March 31, 2010. At June 30, 2010, the accumulated dividend on the Company's 46,050 issued and outstanding shares of Series A preferred stock was $103,000.

NOTE 15. NET CAPITAL REQUIREMENTS

National Securities, as a registered broker-dealer, is subject to the SEC's Uniform Net Capital Rule 15c3-1 that requires the maintenance of minimum net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At June 30, 2010, National Securities had net capital of approximately $570,000 which exceeded its requirement by approximately $320,000.

In addition to the net capital requirements, each of vFinance Investments and EquityStation are required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At June 30, 2010, vFinance Investments had net capital of approximately $1,332,000 which was approximately $332,000 over the minimum required net capital of $1,000,000 and its percentage of aggregate indebtedness to net capital was 360%. At June 30, 2010, EquityStation had net capital of approximately $281,000 which was approximately $181,000 in excess of its required net capital of $100,000 and its percentage of aggregate indebtedness to net capital was 207%. Each of the Broker Dealer subsidiaries qualifies under the exemptive provisions of Rule 15c3-3 under Section (k)(2)(ii) of the Rule, as none of them carry the accounts of their customers on their books nor perform custodial functions related to customer securities.

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

NOTE 16. SUBSEQUENT EVENTS

In June 2010, the Company received gross proceeds of $1.7 million in consideration from issuing notes payable bearing interest at an annual rate of 5% to eight accredited investors. The notes mature in July 2010 are unsecured and subordinated to exiting senior indebtedness of the Company. The Notes were convertible into units of the Company (the "Units") consisting of (a) a newly created class of Series C preferred stock of the Company convertible into shares of our common stock, $0.02 par value per share at $0.50 per share and (b) a warrant exercisable at $0.50 for shares of common stock equal to 100% of the shares of Common Stock underlying the Preferred Stock issued in a subsequent financing of the Company

In July 2010, the Company issued a total of 34,617 shares of Series C preferred stock in consideration of the conversion of the principal and accrued interest of such subordinated borrowing. The Series C preferred stock is convertible into 3,416,691 shares of the Company's common stock. The Preferred C stock bears a liquidation preference of approximately $1,731,000 upon liquidation or sale. In connection with the issuance of the Series C preferred stock, the company issued warrants to purchase 3,416,692 shares of common stock, with an exercise price of $0.50 per share. The warrants vested 33 1/3% on the date of grant and continue to vest at a rate of a 33 1/3 % per year on the first and second anniversary thereafter. The warrants expire five years from the date of exercisability.

On June 21, 2010, vFinance Investments Holdings, Inc., a subsidiary of the Company, completed a sale of a minority equity interest in EquityStation, pursuant to the terms of a Share Purchase Agreement, dated July 21, 2010, by and among vFinance Investments Holdings, Inc, Equity Station, Inc and Osage, LLC, an Osage Nation limited liability company ("Osage"). Pursuant to the Purchase Agreement, vFinance Investments Holdings, Inc. sold 249 shares of its EquityStation common stock to Osage, equal to 24.9% of the issued and outstanding Common Stock of EquityStation, at an aggregate purchase price of $800,000. A 12-month option was also granted to Osage to purchase an additional 301 shares of EquityStation Common Stock for the lesser of (i) $1,700,000 or (ii) such other amount as may be agreed to between the parties, subject to certain adjustments. In the event that the Option is exercised, Osage would own 55% of EquityStation.

Pursuant to the terms of the Purchase Agreement, each of EquityStation, vFinance Investments Holdings, Inc. and Osage have a right of first refusal in the event either vFinance Investments Holdings, Inc. or Osage seek to transfer their shares of EquityStation Common Stock. In addition, vFinance Investments Holdings and Osage have co-sale rights in the event that all of the Offered Shares are not purchased by EquityStation or the non-transferring holder and have been granted piggy-back registration rights in the event EquityStation Common Stock becomes registered under the Securities Act of 1933, as amended. EquityStation has agreed to elect one designee of Osage to its Board of Directors

The Series C Preferred Shares and the warrants issued in connection with the financing consummated in July 2010 contain certain price protection anti-dilution provisions in the event the Company issues shares at an effective price per share lower than $0.50. Such provisions expire on March 31,2011 and exempts transactions in which the Company issues share pursuant to, among other things, a merger, equity based compensation to employees and contractors, conversion or exercise of existing convertible securities, and equipment financing with financial institutions.

The Company may recognize a derivative liability in its future financial statements triggered by the anti-dilution price protection provisions in its future quarterly reports, until such obligation is satisfied.

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

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Quarterly 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 the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 29, 2009. Any forward-looking statements contained in or incorporated into this Quarterly Report speak only as of the date of this Quarterly Report. The Company undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

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

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

As of June 30, 2010, we had approximately 922 associated personnel serving retail and institutional customers, trading and investment banking clients. With the exception of our New York, New Jersey, Florida, Washington and Illinois branches, our approximately 116 other registered offices are owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses. Because these independent operators, many of whom are financial planners, are required to pay their own expenses, we generally pay them a much greater percentage of the commissions and fee income they generate, typically 70% - 90%.

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

Business Environment in the Third Fiscal Quarter of 2010

The financial markets remained volatile during the third quarter of our fiscal year, as US economic critical data indicated a less than robust economic recovery, together with uncertainties with certain European sovereign debt, such as Greece, Spain and Portugal. While merger and acquisitions markets have begun to rebound, the extent and timing of a significant rise in transactions is uncertain.

Instability in the financial markets remain due to uncertainties related to bank regulation, the Federal Reserve's plans to end its various economic stimulus programs and risks of inflation which may lead to higher interest rates. The potential tightening of credit and proposed reforms to regulation of banks and other financial institutions will have an unknown impact on the markets.

The results of our operations during the third quarter of 2010 were impacted from the uncertainties in the financial markets. As these results are highly dependent on the environment in which our businesses operate, our quarterly results may not necessarily be indicative of what may be recognized in the future.

Growth Strategy

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

Key Indicators of Financial Performance for Management

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

RESULTS OF OPERATIONS

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The Company's third quarter of fiscal year 2010 resulted in a decrease in revenues, with a slightly lesser decrease in expenses compared to the same period last year. As a result, the Company reported a net loss of $2,031,000 compared with a net loss of $3,736,000 for the third quarters of fiscal years 2010 and 2009, respectively.

	Three Months Ended June 30,		Increase (Decrease)	
	2010	2009	Amount	Percent
Commissions	$ 19,759,000	$ 22,337,000	$ (2,578,000)	-12 %
Net dealer inventory gains	3,336,000	5,077,000	(1,741,000)	-34 %
Investment banking	1,056,000	896,000	160,000	18 %
Interest and dividends	746,000	252,000	494,000	196 %
Transfer fees and clearance services	1,912,000	2,726,000	(814,000)	-30 %
Other	1,673,000	1,121,000	552,000	49 %
	$ 28,482,000	$ 32,409,000	$ (3,927,000)	-12 %

Total revenues decreased $3,927,000, or 12%, in the third quarter of fiscal year 2010 to $28,482,000 from $32,409,000 in the third quarter of fiscal year 2009. The decrease in revenues is primarily due to less favorable market conditions in retail brokerage and trading activity. Commission revenue decreased $2,578,000, or 12%, to $19,759,000 from $22,337,000 during the third quarter of fiscal year 2010 compared with the same period in fiscal year 2009, which is attributable to generally less favorable market conditions. Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $1,741,000, or 34%, to $3,336,000 from $5,077,000 during the third quarter of fiscal year 2010 compared with the same period in fiscal year 2009. The decrease is primarily due to less favorable trading conditions affecting nearly all trading activities in the quarter ended June 30, 2010 as compared to the same quarter in 2009.

Investment banking revenue increased $160,000, or 18% to $1,056,000 from $896,000 during the third quarter of 2010 compared to the same period in fiscal year 2009. This increase was attributable to generally better market conditions for investment banking activity resulting in greater success, advisory and consulting fees for services provided during the quarter. Interest and dividend income increased by $494,000 or 196%, to $746,000 from $252,000 in the third quarter of fiscal year 2010 compared with the same period in fiscal year 2009. The increase in interest income is attributable to somewhat higher customer margin account balances and higher customer free cash balances during the quarter as well as more favorable credit terms from our primary clearing firm. Transfer fees decreased $814,000 or 30%, to $1,912,000 in the third quarter of fiscal year 2010 from $2,726,000 in the third quarter of fiscal year 2009. The decrease is due primarily to lower total transactional volume quarter over quarter related to retail brokerage revenue.

Other revenue, consisting of asset management fees, miscellaneous transaction fees and trading fees and other investment income, increased $552,000, or 49%, to $1,673,000 from $1,121,000 during the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. The increase is due primarily to slightly higher assets under management.

In comparison with the 12% decrease in total revenues, total expenses decreased 8%, or $2,764,000 to $30,513,000 for the third quarter of fiscal year 2010 compared to $33,277,000 in the third quarter of fiscal year 2009. This decrease was primarily driven by the decrease in revenues causing a corresponding decrease in commissions.

	Three Months Ended June 30,		Increase (Decrease)	
	2010	2009	Amount	Percent
Commissions	$ 22,451,000	$ 26,061,000	$ (3,610,000)	-14 %
Employee compensation	2,923,000	2,985,000	(62,000)	-2 %
Clearing fees	576,000	402,000	174,000	43 %
Communications	1,023,000	1,244,000	(221,000)	-18 %
Occupancy and equipment costs	1,191,000	954,000	237,000	25 %
Professional fees	763,000	548,000	215,000	39 %
Interest	459,000	292,000	167,000	57 %
Taxes, licenses and registration	443,000	414,000	29,000	7 %
Other administrative expenses	684,000	377,000	307,000	81 %
	$ 30,513,000	$ 33,277,000	$ (2,764,000)	-8 %

Commission expense, which includes expenses related to commission revenue, net dealer inventory gains and investment banking, decreased $3,610,000, or 14%, to $22,451,000 in the third quarter of fiscal year 2010 from $26,061,000 in the third quarter of fiscal year 2009. The decrease is primarily attributable to a decrease in the related commission revenues. Commission expense also includes the amortization of advances to registered representatives of $187,000 and $391,000 for the third quarter of fiscal years 2010 and 2009, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities.

Employee compensation expense decreased $62,000, or 2%, to $2,923,000 in the third quarter of fiscal year 2010 from $2,985,000 in the third quarter of fiscal year 2009. Employee compensation includes the amortization of the fair value associated with stock based compensation of $113,000 and $237,000 in the third quarter of fiscal years 2010 and 2009, respectively. Combined commission and employee compensation expense, as a percentage of revenue, increased to 89% from 87% in the third quarter of fiscal year 2010 and 2009, respectively.

Clearing fees increased $174,000 or 43%, to $576,000 in the third quarter of fiscal year 2010 from $402,000 in the third quarter of fiscal year 2009. The increase in clearing fees is due to a slightly higher average cost per transaction due to product mix, and the decrease in total transactional revenue.

Communication expenses decreased $221,000 or 18%, to $1,023,000 from $1,244,000 in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. The decrease is due to the Company beginning to reduce some of its older communications services now that newer, faster and more stable services have been implemented as a result of the merger. Occupancy costs increased $237,000, or 25%, to $1,191,000 from $954,000 in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009 due to the write off of a deferred rental expense as a result of the cancellation of an office lease in 2009 by the Company.

Professional fees increased $215,000, or 39%, to $763,000 from $548,000 in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. The increase in professional fees is primarily a result of higher legal costs associated with the defense of arbitrations in fiscal year 2010 that were not incurred in the third quarter of fiscal year 2009.

Interest expense increased $167,000, or 7%, to $459,000 from $292,000 in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. The increase in interest expense is attributable to the fair value of warrants issued in June 2010 to two lenders in consideration of waiving certain covenants and extending the terms of a note.   Included in interest expense is the amortization of deferred financing costs of $11,000 and $13,000 the third quarter of fiscal years 2010 and 2009, respectively. Taxes, licenses and registration increased $29,000, or 7%, to $443,000 from $414,000 in the second quarter of fiscal year 2010 compared to the second quarter of fiscal year 2009. The increase in taxes, licenses and registration is due to a general increase in fees paid to regulators and other governmental agencies. Other administrative expenses increased $307,000 or 81% to $684,000 from $377,000 in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. The increase is due to primarily to the addition of new email, email compliance, and continuing education programs to ensure the Company remains in compliance with rules and regulations.

The Company reported a net loss of $2,031,000 in the third quarter of fiscal year 2010 compared to a net loss of $868,000 in the third quarter of fiscal year 2009. The net loss attributable to common stockholders in the third quarter of fiscal year 2010 was $2,134,000, or $0.12 per common share, as compared to a net loss attributable to common stockholders in the third quarter of fiscal year 2009 of $964,000, or $.06 per common share. The net loss attributable to common stockholders for the third quarter of fiscal year 2010 and 2009 reflects $103,000 and $96,000, respectively of cumulative preferred stock dividends on the Company's preferred stock.

Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009

The Company's first nine months of fiscal year 2010 resulted in an increase in revenues, with a lower increase in expenses compared to the same period last year. As a result, the Company reported a net loss of $3,736,000 compared with a net loss of $3,938,000 for the first nine months of fiscal years 2010 and 2009, respectively.

	Nine Months Ended June 30, 2010	2009	Increase (Decrease) Amount	Percent
Commissions	$ 57,346,000	$ 53,168,000	$ 4,178,000	8 %
Net dealer inventory gains	11,199,000	16,157,000	(4,958,000)	-31 %
Investment banking	4,095,000	2,046,000	2,049,000	100 %
Interest and dividends	1,856,000	1,285,000	571,000	44 %
Transfer fees and clearance services	6,672,000	6,997,000	(325,000)	-5 %
Other	4,534,000	3,783,000	751,000	20 %
	$ 85,702,000	$ 83,436,000	$ 2,266,000	3 %

Total revenues increased $2,266,000, or 3%, in the first nine months of fiscal year 2010 to $85,702,000 from $83,436,000 in the first nine months of fiscal year 2010. The increase in revenues is primarily due to slightly more favorable market conditions in the first nine months of the year over all with an emphasis on retail brokerage and investment banking offset by a decrease in trading revenue. Commission revenue increased $4,178,000, or 8%, to $57,346,000 from $53,168,000 during the first nine months of fiscal year 2010 compared with the same period in fiscal year 2009, which is attributable to generally more favorable market conditions for the nine months ended. Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $4,958,000, or 31%, to $11,199,000 from $16,157,000 during the first nine months of fiscal year 2010 compared with the same period in fiscal year 2009. The decrease is primarily due to less favorable trading conditions affecting nearly all products within our trading activities in the third quarter of fiscal year 2010 as compared to the same quarters in 2009.

Investment banking revenue increased $2,049,000, or 100% to $4,095,000 from $2,046,000 during the first nine months of 2010 compared to the same period in fiscal year 2009. This increase was attributable to substantially better market conditions for investment banking activity resulting in greater success, advisory and consulting fees for services provided during the nine month period. Interest and dividend income increased by $571,000 or 44%, to $ 1,856,000 from $1,285,000 in the first nine months of fiscal year 2010 compared with the same period in fiscal year 2009. The increase in interest income is attributable to somewhat higher customer margin account balances and higher customer free cash balances as well as more favorable credit terms from our primary clearing firm. Transfer fees decreased $325,000 or 5%, to $6,672,000 in the first nine months of fiscal year 2010 from $9,997,000 in the first nine months of fiscal year 2009. The increase is due primarily to slightly lower transaction volume for the nine month period.

Other revenue, consisting of asset management fees, miscellaneous transaction fees and trading fees and other investment income, increased $751,000, or 20%, to $4,534,000 from $3,783,000 during the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009. The increase is due primarily to slightly higher assets under management.

In comparison with the 3% increase in total revenues, total expenses only increased by $2,064,000 or 2% to $89,438,000 for the first nine months of fiscal year 2010 compared to $87,374,000 in the first nine months of fiscal year 2009. This increase was primarily driven by the increase in revenues causing a corresponding increase in commissions, along with higher taxes, license and registration fees and other administrative expenses, offset by a reduction in clearing fees.

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Commissions	$ 66,067,000	$ 64,526,000	$ 1,541,000	2 %
Employee compensation	9,063,000	9,029,000	34,000	0 %
Clearing fees	982,000	1,371,000	(389,000)	-28 %
Communications	3,025,000	3,137,000	(112,000)	-4 %
Occupancy and equipment costs	3,859,000	3,786,000	73,000	2 %
Professional fees	2,129,000	1,917,000	212,000	11 %
Interest	1,056,000	925,000	131,000	14 %
Taxes, licenses and registration	1,306,000	1,016,000	290,000	29 %
Other administrative expenses	1,951,000	1,667,000	284,000	17 %
	$ 89,438,000	$ 87,374,000	$ 2,064,000	2 %

Commission expense, which includes expenses related to commission revenue, net dealer inventory gains and investment banking, increased $1,541,000, or 2%, to $66,067,000 in the first nine months of fiscal year 2010 from $64,526,000 in the first nine months of fiscal year 2009. The increase is primarily attributable to an increase in the related commission revenues and a slightly higher average payout percentage due to product mix. Commission expense also includes the amortization of advances to registered representatives of $1,106,000 and $1,158,000 for the first nine months of fiscal years 2010 and 2009, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities.

Employee compensation expense increased $34,000, or less than 1%, to $9,063,000 in the first nine months of fiscal year 2010 from $9,029,000 in the first nine months of fiscal year 2009. Employee compensation includes the amortization of the fair value associated with stock based compensation of $409,000 and $678,000 in the first nine months of fiscal years 2010 and 2009, respectively. Overall, combined commission and employee compensation expense, as a percentage of revenue amounted to 88% and 87% in the first nine months of fiscal year 2010 and 2009, respectively.

Clearing fees decreased $389,000 or 28%, to $982,000 in the first nine months of fiscal year 2010 from $1,371,000 in the first nine months of fiscal year 2009. The decrease in clearing fees is primarily due to the write off of a deferred revenue item caused by the termination of National's clearing agreement with NFS resulting in a reduction of clearing costs of $456,000.

Communication expenses decreased $112,000 or 4%, to $3,025,000 from $3,137,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009. The increase is due to the Company applying much of its IT infrastructure design across all of its locations due to the merger. Occupancy costs increased $73,000, or 2%, to $3,859,000 from $3,786,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009.

Professional fees increased $212,000 or 11%, to $2,129,000 from $1,917,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009. The increase in professional fees is primarily a result of higher legal costs associated with the defense of arbitrations in fiscal year 2010 that were not incurred in the nine months ended June 2009.

Interest expense increased $131,000, or14%, to $1,056,000 from $925,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009. The increase in interest expense is attributable to the fair value of warrants issued in June 2010 to two lenders in consideration of waiving certain covenants and extending the term of a note offset by the Company renegotiating a lower interest on its note with Christopher Dewey from an interest rate of 10% to 7%. Included in interest expense is the amortization of deferred financing costs of $22,000 and $41,000 for the first nine months of fiscal years 2010 and 2009, respectively. Taxes, licenses and registration increased $290,000, or 29%, to $1,306,000 from $1,016,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009. The increase in taxes, licenses and registration is due to a general increase in fees paid to regulators and other governmental agencies. Other administrative expenses increased $284,000 or 17% to $1,951,000 from $1,667,000 in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009 partly due to the Company paying a $100,000 judgment for a 2004 Securities and Exchange Commission matter that was closed in June 2010

The Company reported a net loss of $3,736,000 in the first nine months of fiscal year 2010 compared to a net loss of $3,938,000 in the first nine months of fiscal year 2009. The net loss attributable to common stockholders in the first nine months of fiscal year 2010 was $4,127,000, or $0.24 per common share, as compared to a net loss attributable to common stockholders in the first nine months of fiscal year 2009 of $4,203,000, or $.25 per common share. The net loss attributable to common stockholders for the first nine months of fiscal year 2010 and 2009 reflects $391,000 and $265,000, respectively of cumulative preferred stock dividends on the Company's preferred stock.

NON-G.A.A.P. INFORMATION

Management considers 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 do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For the three and nine months ended June 30, 2010, EBITDA, as adjusted, was $(881,000) and $(8,000), respectively. For the three and nine months ended June 30, 2009, EBITDA, as adjusted, was $431,000 and ($21,000), respectively.This decline in EBITDA, as adjusted of $1,312,000 in the three months ended June 30, 2010 over the three months ended June 30, 2009 resulted from a slightly higher average cost of commission expense paid out to brokers due to product mix as well as higher occupancy costs, professional fees, taxes, license and registration fees and other administrative expenses. EBITDA, as adjusted for the nine months ended June 30, 2010 over the nine months ended June 30 2009 improved by $13,000.

The following table presents a reconciliation of EBITDA, as adjusted, to net income as reported.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss), as reported	$ (2,031,000)	$ (868,000)	$ (3,736,000)	$ (3,938,000)
Interest expense	459,000	291,000	1,056,000	926,000
Taxes	47,000	29,000	132,000	106,000
Depreciation	182,000	189,000	539,000	551,000

Amortization	162,000	162,000	487,000	466,000
EBITDA	(1,181,000)	(197,000)	(1,522,000)	(1,889,000)
Non-cash compensation expense	113,000	237,000	409,000	710,000
Amortization of forgivable loans	187,000	391,000	1,105,000	1,158,000
EBITDA, as adjusted	$ (881,000)	$ 431,000	$ (8,000)	$ (21,000)

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Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for gains or losses on sales of assets, non-cash compensation expense and loss on extinguishment of debt, is a key metric the Company uses in evaluating its business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended.

Liquidity and Capital Resources

Our Broker Dealer Subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer's net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At June 30, 2010, National Securities' net capital exceeded the requirement by $320,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000 and at June 30, 2010, vFinance Investments' net capital exceeded the requirement by $332,000. EquityStation is required to maintain $100,000 and at June 30, 2010, EquityStations' net capital exceeded the requirement by $181,000.

Advances, dividend payments and other equity withdrawals from the Company's subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During the quarter and nine months ended June 30, 2010 the Company did not have any 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 its commitments.

Our primary sources of liquidity include our cash flow from operations, the sale of our securities and other financing activities. We believe that we have sufficient funds from operations to fund our ongoing operating requirements through at least fiscal year 2010. If market conditions should weaken, the Company would need to consider curtailing certain of its business activities, reducing its fixed overhead costs and/or seek additional sources of financing.

Cash used in operating activities for the first nine months of fiscal year 2010 amounted to $2,954,000, which was primarily due to our net loss of $3,736,000, reduced by non cash adjustments of $1,005,000 in depreciation and amortization, $1,186,000 reduction of loans to registered representatives, $409,000 in stock compensation expense, $796,000 in amortization of note discount, a decrease in receivables from our clearing firms of $1,784,000 offset by an increase in our securities owned; marketable at fair value of $207,000, a decrease in accounts payable and accrued expenses of $4,429,000and an increase in other receivables of $156,000 further contributed to the reduction in cash used in operations.

Cash used in investing activities for the first nine months of fiscal year 2010 amounted to $341,000, which was due to the need to purchase fixed assets under mostly capital leases. The majority of these capital purchases were for the ongoing upgrade of technology in our Downtown Manhattan office.

Cash provided by financing activities for the first nine months of fiscal year 2010 amounted to $1,200,000 resulting from the issuance of subordinated borrowings to certain investors and existing board members offset by a repayment of note payable of $500,000.

Cash used in operations for the nine months ended June 30, 2009 was $736,000 which was primarily due to our net loss of $3,938,000, reduced by non cash adjustments of $1,017,000 in depreciation and amortization and $678,000 in stock compensation expense. An increase in receivables from our clearing firms of $651,000, an increase in other receivables of $333,000, and a decrease of the payable to broker dealers and clearing organizations of $451,000 further decreased cash but was offset by an increase in accounts payable and accrued expenses of $1,022,000, a decrease in advances to brokers of $934,000 and a decrease in long securities owned at market value of $541,000.

Cash used in investing activities for the first nine months of 2009 amounted to $598,000, which was primarily due to the need to purchase fixed assets under mostly capital leases due to the move of our vFinance Boca Raton data center into a co-location in Miami, Florida and the move of our Boca Raton office to a new location.

Cash used in financing activities amounted to $132,000 due in part to the repayment of indebtedness to certain principal stockholders of $500,000 but was partially offset by a private placement of our securities (net of costs) and securing a subordinated loan which brought in about $368,000

OFF-BALANCE SHEET ARRANGEMENTS

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

NEW ACCOUNTING PRONOUNCEMENTS

See Note 3 of Notes to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following table shows the quoted market values of marketable securities owned ("long") by the Company, securities sold but not yet purchased ("short") the Company, and net positions as of June 30, 2010:

	Long	Short	Net
Corporate stocks	$ 109,000	$ 162,000	$ (53,000)
Corporate bonds	5,000	-	5,000
Government obligations	680,000	-	680,000
Non-marketable securities	75,000	1,000	74,000
	$ 869,000	$ 163,000	$ 706,000

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

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

Based on the evaluation of the Company’s disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) required by the Exchange Act Rules 13a-15(b) or 15d-15(b), the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were not effective in light of the identification of a material weakness in the Company’s internal controls over financial reporting as discussed and reported in the Company’s Form 8-K filed June 10, 2010

Changes in internal controls.

We have continually had in place systems relating to internal control over financial reporting. There were no significant changes in the Company’s internal controls over financial reporting or in other factors during the last fiscal quarter to which this Quarterly Report on Form 10-Q relates that could significantly affect those controls and procedures subsequent to the date of our evaluation nor any significant deficiencies or material weaknesses in such internal controls and procedures requiring corrective actions.

We have taken steps to remediate the weaknesses in our internal control discovered as a result of our accounting review which led to the correction of certain errors and believe that such weaknesses in internal control for the quarterly periods as of June 30, 2009 have been fully remediated. We are in the process of hiring a third-party consultant who specializes in compliance with SOX and FINRA Net Capital requirements to ensure that controls and procedures are in place.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In early 2009, Vincent Falco commenced a FINRA arbitration against National Securities and two of its representatives. Claimant alleged that National Securities and the registered representatives purchased unsuitable securities, failed to follow instructions regarding the use of margin, made misrepresentations of material fact and/or omitted material facts in connection with the purchase of securities, managed the account negligently, breached their contract with Mr. Falco, breached fiduciaries duties owed to him, and violated FINRA Conduct Rules. Claimant further alleged that National Securities negligently supervised the account. Claimant sought compensatory damages from all respondents in the amount of $3,000,000, punitive damages of $9,000,000, plus disgorgement of fees, attorneys' fees, forum fees, costs and interest, all in undisclosed amounts. The Company and Mr. Falco entered into a settlement agreement in February 2010 under which Mr. Falco was to receive $900,000 plus the issuance of 125,000 shares of the Company's restricted common stock. The Company's insurer paid the $900,000 to Mr. Falco, the Company issued the shares, and the case was dismissed with prejudice.

In April 2010, Triage Partners, LLC, ("Triage") a preferred stockholder of the Company and an affiliate of Steven B. Sands and Martin S. Sands, former Co-Chairmen and directors of the Company, filed an action in the Supreme Court of the New York, New York County, Index # 601114/10, for a declaratory judgment. Triage seeks a declaration that the Company's 2008 merger with vFinance, Inc. was a Liquidity Event as defined in the Company's Certificate of Designations, Rights and Preferences of its Series A Preferred Stock, and payment in the amount of $1,070,700, plus accumulated dividends as of July 1, 2008, plus interest, allowable costs and other damages. The Company moved to dismiss this claim, and briefing on this motion continues. The Company intends to defend itself vigorously in this action and believes that the eventual outcome of this matter will not have a materially adverse effect on the Company. However, the ultimate outcome of this matter cannot be determined at this time.

Other than those events described above, during the quarter ended June 30, 2010, there were no significant developments in the Company's legal proceedings. For a detailed discussion of the Company's legal proceedings, please refer to Note 13 herein, and the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

ITEM 1A. RISK FACTORS

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") into law. The Dodd-Frank Act makes extensive changes to the laws regulating financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. While the full effects of the Dodd-Frank Act on the Company cannot yet be determined, this legislation is generally perceived as negatively impacting the financial services industry. The Dodd-Frank Act may result in higher compliance and other costs, reduced revenues and higher capital and liquidity requirements, among other things, which could adversely affect the business of the Company, perhaps materially.

Other than stated above, there are no material changes from the risk factors previously disclosed in the Company's Form 10-K for the year ended September 30, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITYSECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

4.9	Form of Convertible Note.
10.38	Note Purchase Agreement, dated as of June 4, 2010, by and among the Company and the Investors signatory thereto.
10.39	Right of First Refusal Agreement, dated as of June 7, 2010, by and between the Company and Frank Plimpton.
10.40	Amendment No. 4 to Forbearance and Warrant Modification Agreement, dated as of June 4, 2010, by and between the Company and Christopher C. Dewey.
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.

SIGNATURES

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

August 16, 2010	By: /s/ Mark Goldwasser Mark Goldwasser Chief Executive Officer
August 16, 2010	By: /s/ Alan B. Levin Alan B. Levin Chief Financial Officer

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