NATIONAL HOLDINGS CORP
Form S-1/A
March 20, 2013

As filed with the Securities Exchange Commission on March 20, 2013
Registration No. 333-187191

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-1
REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933

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

Delaware	6200	36-4128138
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code No.)	(I.R.S. Employer Identification No.)

120 Broadway, 27th Floor, New York, New York 10271
(212) 417-8000
(Address and telephone number of principal executive offices
and principal place of business)

Mark D. Klein
Chief Executive Officer and Executive Co-Chairman
National Holdings Corporation
120 Broadway, 27th Floor
New York, New York 10271
(212) 417-8000
(Name, address and telephone number of agent for service)

Copies to:
James Kaplan, Esq.
Joseph Walsh, Esq.
Troutman Sanders, LLP
The Chrysler Building
405 Lexington Avenue
New York, New York 10174
(212) 704-6000

Approximate date of proposed sale to the public: From time to time after this registration becomes effective.
If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. S
If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. £

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. £

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. £

If the delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. £

Large accelerated filer £ Accelerated filer £

Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller reporting company S

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (3)
Common Stock, par value $0.02 per share	29,451,596	$0.275	$8,099,189	$1,105

(1) In accordance with Rule 416(a) under the Securities Act of 1933, as amended (the "Securities Act"), the Registrant is also registering hereunder an indeterminate number of shares of common stock that may be issued and resold resulting from stock splits, stock dividends, anti-dilution adjustment or similar transactions.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act based on the average of the high and low sale prices of the common stock reported on the OTC Bulletin Board on March 8, 2013, which was $0.275 per share.

(3) Previously paid.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement becomes effective on such date as the Commission, acting under Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling stockholders will not sell these securities until after the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED MARCH 20, 2013

29,451,596 Shares

NATIONAL HOLDINGS CORPORATION

Common Stock

This prospectus relates to the resale at various times by the selling stockholders identified in this prospectus of up to 29,451,596 shares of our common stock. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. See “Selling Stockholders” beginning on page 72 of this prospectus for a complete description of the selling stockholders.

The selling stockholders may sell the shares of our common stock being offered by them from time to time on the OTC Bulletin Board, in market transactions, in negotiated transactions or otherwise, and at prices and at terms that will be determined by the then prevailing market price for the shares of our common stock or at negotiated prices directly or through brokers or dealers, who may act as agent or as principal or by a combination of such methods of sale. See “Plan of Distribution” beginning on page 81 of this prospectus for a complete description on the methods of sale. We will pay the expenses incurred to register the shares for resale, but the selling stockholders will pay any underwriting discounts, commissions or agent’s commissions related to the sale of their shares of our common stock.

Our common stock is traded on the OTC Bulletin Board under the symbol “NHLD.OB”. On March 19, 2013 , the closing sale price of our common stock was $0.28 per share.

Investing in our common stock involves risks. Before making any investment in our securities, you should read and carefully consider risks described in the “Risk Factors” section beginning on page 8 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2013.

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with information that is different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. The selling stockholders are offering to sell and seeking offers to buy these securities only in jurisdictions where offers and sales are permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all the information that should be considered before investing in our common stock. Investors should read the entire prospectus carefully, including the more detailed information contained herein under the “Risk Factors” and “Special Note Regarding Forward-Looking Statements” sections and our consolidated financial statements and the notes to those financial statements.

As used in this prospectus, unless the context otherwise requires, the “Company,” "National" “we,” “us” and “our” refer to National Holdings Corporation, a Delaware corporation, as well as its subsidiaries.

Our Company

Overview

National Holdings Corporation, a Delaware corporation organized in 1996, is a financial services organization, operating primarily through its wholly-owned subsidiaries, National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington.

Through its Broker-Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 39,000 high net worth individual and institutional clients, (2) provides investment banking, merger and acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) engages in trading securities, including making markets in over 5,800 securities, providing liquidity in both foreign and domestic issues on a variety of exchanges and also providing execution and technical analysis 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 SEC, are members of the FINRA, Securities Investor Protection Corporation ("SIPC") and are also members of the National Futures Association ("NFA").

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

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

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

Corporate Information

Our principal executive offices are located at 120 Broadway, 27th Floor, New York, New York 10271. Our telephone number is (212) 417-8000 and our Internet website is www.nhldcorp.com. The content of our Internet website does not constitute a part of this prospectus.

Recent Developments

NASD Rule 1017

In September 2012, EquityStation filed pursuant to NASD Rule 1017, a request to transfer its business assets, primarily its customer accounts and brokers, to its affiliate, vFinance Investments and to withdraw its membership from FINRA. On December 10, 2012, FINRA advised the Company that the request had been approved and the transfer of assets was made accordingly.

In September 2012, vFinance Investments filed pursuant to NASD Rule 1017, a request to transfer its retail business assets, primarily its customer accounts and brokers, to its affiliate, National Securities. On December 13, 2012, FINRA advised the Company that the request had been approved and the transfer of assets was made accordingly on December 14, 2012.

The effect of these changes is not expected to have a material impact on the revenue or profitability of the Company in future reporting.

Private Placement

On January 24, 2013, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Purchasers") providing for the issuance and sale of approximately 29,450,000 shares (the “Private Placement Shares”) of our common stock for an aggregate purchase price of approximately $8.8 million (the “Purchase Price”). The closing of the sale of the Private Placement Shares occurred on January 25, 2013 (the “Closing”).

In connection with the Purchase Agreement, on January 24, 2013, the Company and the Purchasers entered into a Registration Rights Agreement (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, the Company has agreed to use its commercially reasonable efforts to (i) file with the Securities and Exchange Commission (the “SEC”) as soon as practicable but in no event later than 45 days of the date of the Closing, a registration statement covering the resale of all Private Placement Shares and (ii) have the registration statement be declared effective under the Securities Act of 1933, as amended (the “Securities Act”), as soon as practicable but in no event later than the 90 days or if there is a review of the registration statement by the SEC, 120 days after the date of the Closing. In the event that (1) a registration statement is not declared effective by the SEC on or prior to its required effectiveness date, (2) after the date the registration statement is declared effective by the SEC, (a) a registration statement ceases for any reason, to remain continuously effective or (b) the Purchasers are not permitted to utilize the prospectus included in the registration statement therein to resell the Private Placement Shares, in each case, for more than an aggregate of 20 consecutive days or 45 days during any 12-month period, or (3) the Company fails to satisfy the current public information requirement pursuant to Rule 144(c)(1) under the Securities Act, it shall pay to each Purchaser an amount in cash equal to 1% of the Purchase Price attributed to the such Purchaser's Private Placement Shares on the date the failure occurs and every 30 days thereafter, until cured subject to a maximum amount of up to 10% of the aggregate Purchase Price of the Private Placement Shares. We are registering the shares under the Registration Statement, of which this prospectus is a part, to satisfy our obligation under the Registration Rights Agreement.

Recapitalization

We have previously issued and sold to certain accredited investors (the "Series D Holders") units comprised of (i) shares of Series D preferred stock, par value $0.02 per share (the “Series D Preferred Stock”), convertible into shares of our common stock, and (ii) warrants exercisable for shares of our common stock. In conjunction with the Purchase Agreement, on January 24, 2013, we entered into a Conversion and Exchange Agreement (the "Series D Conversion and Exchange Agreement") with the Series D Holders pursuant to which, among other things, each Series D Holder converted all of such Series D Holder's shares of Series D Preferred Stock into 6,000,000 shares of our common stock in accordance with the terms and conditions of the Certificate of Designation, Preferences and Rights for the Series D Preferred Stock, dated September 29, 2010 (the "Series D Conversion"). The closing of the Series D Conversion occurred in conjunction with the Closing. Following the Series D Conversion, no shares of Series D Preferred Stock are outstanding and all rights of the Series D Holders with respect to the Series D Preferred Stock terminated.

We have previously issued and sold to an accredited investor (the "Series E Holder") convertible notes in the aggregate initial principal amount of $5,000,000 (the "Notes”). The Notes are convertible into units consisting of (i) Series E preferred stock, par value $0.01 per share (the “Series E Preferred Stock”) convertible into shares of our common stock, and (ii) a warrant exercisable for shares of our common stock. In conjunction with the Purchase Agreement, on January 24, 2013, we entered into a Conversion and Exchange Agreement (the "Series E Conversion and Exchange Agreement") with the Series E Holder pursuant to which, among other things, (i) the Series E Holder converted all of the Notes (and all accrued and unpaid interest thereon) into shares of Series E Preferred Stock in accordance with the terms and conditions of the Notes (the "Note Conversion"), and (ii) then the Series E Holder converted all of its Series E Preferred Stock into 10,000,000 shares of our common stock in accordance with the terms and conditions of the Certificate of Designation, Preferences and Rights for the Series E Preferred Stock, dated March 30, 2012 (the "Series E Conversion"). The closing of the Note Conversion and the Series E Conversion occurred in conjunction with the Closing. Following the Note Conversion and the Series E Conversion, no Notes or shares of Series E Preferred Stock are outstanding and all rights of the Series E Holder with respect to the Notes and the Series E Preferred Stock issuable to the Series E Holder upon conversion of the Notes terminated, except for the right to receive the number of whole shares of our common stock issuable upon conversion of the Series E Preferred Stock.

We have previously issued warrants (the "Warrants") representing the right to purchase shares of common stock to certain investors (the "Warrantholders"), including, with limitation, the holders (the "Series C Holders") (as described more fully below) of shares of Series C preferred stock, par value $0.02 per share (the "Series C Preferred Stock"), the Series D Holders and the Series E Holders. In conjunction with the Purchase Agreement, on January 24, 2013, we entered into a Warrant Exchange Agreement with the Warrantholders pursuant to which, among other things, the Warrantholders exchanged certain of the Warrants for 12,951,196 shares of our common stock (the "Warrant Exchange"). The closing of the Warrant Exchange occurred in conjunction with the Closing. Following the Warrant Exchange, all of the rights of the Warrantholders with respect to the Warrants terminated. Following the Warrant Exchange there were warrants to purchase 1,990,505 shares of our common stock issued and outstanding, which include warrants held by certain holders of Series C Preferred Stock.

On January 24, 2013, the holders of a majority of the outstanding shares of Series C Preferred Stock, approved the Amended and Restated Certificate of Designation, Preference and Rights of the Series C Preferred Stock (the "Amended and Restated Series C Certificate of Designation"). The Amended and Restated Series C Certificate of Designation provides, among other things, that in the event the Company shall have raised at least $5 million through the sale of our common stock, at a purchase price not less than $.30 per share in a private placement transaction by March 31, 2013, all outstanding shares of Series C Preferred Stock shall automatically be converted into shares of our common stock at the then effective conversion price of the Series C Preferred Stock. As a result of the Closing, the mandatory conversion date for the Series C Preferred Stock was January 25, 2013. As of the mandatory conversion date, the holders of Series C Preferred Stock are entitled to receive an aggregate of 3,416,692 shares of our common stock. From and after the mandatory conversion date, no shares of Series C Preferred Stock are outstanding and all of the rights of the holders of Series C Preferred Stock with respect to the Series C Preferred Stock terminated.

The Offering

Common stock outstanding	88,416,988 (1)
Common stock offered by the selling stockholders	29,451,596
Use of Proceeds	We will not receive any of the proceeds from the sale of the shares of our common stock being offered under this prospectus. See "Use of Proceeds" beginning on page 18.
Risk Factors	There are many risks related to our business, this offering and ownership of our common stock that you should consider before you decide to buy our common stock in this offering. You should read the "Risk Factors" section beginning on page 8, as well as other cautionary statements throughout this prospectus, before investing in shares of our common stock.

____

(1) Unless otherwise indicated, the number of shares in this prospectus does not give effect to:

- 100,000 shares of our common stock reserved for issuance under options to purchase our common stock under our 2004 Stock Option Plan;
- 1,500,000 shares of our common stock reserved for issuance under our 2006 Stock Option Plan of which options to purchase 1,030,000 shares were outstanding as of that date; and
- 1,990,505 shares of our common stock reserved for issuance under warrants to purchase our common stock.

RISK FACTORS

An investment in shares of our common stock is highly speculative and involves a high degree of risk. We face a variety of risks that may affect our operations or financial results and many of those risks are driven by factors that we cannot control or predict. The following discussion addresses those risks that management believes are the most significant, although there may be other risks that could arise, or may prove to be more significant than expected, that may affect our operations or financial results. Prospective investors should carefully consider the following risk factors in evaluating an investment in our common stock

Risks Related to Our Business

Our operating results have resulted in reporting losses.

We reported losses of approximately $1.9 million and $4.7 million in fiscal years 2012 and 2011, respectively, and losses of $ 41,000 and $1,109,000 for the three months ended December 31, 2013 and 2012, respectively. There is no assurance that we will be profitable in the future. If we are unable to achieve or sustain profitability, we may need to curtail, suspend or terminate certain operations.

We may require additional financing.

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

We are exposed to risks due to investment banking activities.

Participation in an underwriting syndicate or a selling group involves both economic and regulatory risks. An underwriter may incur losses if it is unable to resell the securities it is committed to purchase, or if it is forced to liquidate its commitment at less than the purchase price. In addition, under federal securities laws, other laws and court decisions with respect to underwriters' liabilities and limitations on the indemnification of underwriters by issuers, an underwriter is subject to substantial potential liability for misstatements or omissions of material facts in prospectuses and other communications with respect to such offerings. Acting as a managing underwriter increases these risks. Underwriting commitments constitute a charge against net capital and our ability to make underwriting commitments may be limited by the requirement that it must at all times be in compliance with SEC Rule 15c3-1(the "Net Capital Rule").

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

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not accurately predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot assure that our policies and procedures will effectively and accurately record and verify this information. We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. We believe that we are able to evaluate and manage the market, credit and other risks to which it is exposed. Nonetheless, our ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments could have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in our credit risk to customers as well as to third parties and increases in general systemic risk.

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

We depend on the continued services of our management team, particularly Mark D. Klein, Robert B. Fagenson and Mark Goldwasser, as well as our ability to hire additional members of management, and to retain and motivate other officers and key employees. We may not be able to find an appropriate replacement for any or all of the aforementioned or any other executive officer if the need should arise. Due to the regulated nature of some of our businesses, some of our executive officers, or other key personnel could become subject to suspensions or other limitations on the scope of their services to the Company from time to time. If we lose the services of any executive officers or other key personnel, we may not be able to manage and grow our operations effectively, enter new brokerage markets or develop new products.

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

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

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

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

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

Our Broker-Dealer Subsidiaries are subject to the SEC's net capital rule, which requires the maintenance of minimum net capital. National Securities and vFinance Investments are each required to maintain $250,000 and $1,000,000, in minimum net capital, respectively. Due to its market maker status, vFinance Investments is required to maintain a specified amount of capital for each security that it makes a market in, based on the bid price of each stock. This required amount can exceed the minimum net capital requirement, and in the case of vFinance Investments, the minimum net capital requirement has been $1,000,000 (the limit) in recent years. The net capital rule is designed to measure the general financial integrity and liquidity of a broker-dealer. Compliance with the net capital rule limits those operations of broker-dealers that require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness, such as subordinated debt, as it matures. FINRA may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, FINRA may immediately restrict or suspend certain or all of the activities of a broker-dealer. Our Broker-Dealer Subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below requirements established by the SEC, and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. In addition, if these net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain present levels of business, which could have a material adverse effect on our business. In addition, our Broker-Dealer Subsidiaries may become subject to net capital requirements in other foreign jurisdictions in which we currently operate or which we may enter. We cannot predict our future capital needs or our ability to obtain additional financing.

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

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

Our revenues may decline in adverse market or economic conditions.

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

Market fluctuations and volatility may reduce our revenues and profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face significant competition for registered representatives.

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

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

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

- employees binding us to transactions that exceed authorized limits or present unacceptable risks to us;
- employees hiding unauthorized or unsuccessful activities from us; or
- the improper use of confidential information.

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

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

Although a significant portion of our business is conducted using traditional methods of contact and communications such as face-to-face meetings, a portion of our business is conducted through the Internet. We could experience system failures and degradations in the future.

We cannot assure you that we will be able to prevent an extended and/or material system failure if any of the following events occur:

- human error;

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

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

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

Risks Related to our common stock

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

Our common stock is quoted on the OTC Bulletin Board. Traditionally, the trading volume of the common stock has been limited. For example, for the 30 trading days ending on December 31, 2012, the average daily trading volume was approximately 4,380 shares per day and on certain days there was no trading activity. During such 30-day period the closing price of our common stock ranged from a high of $0.29 to a low of $0.13. Because of this limited trading volume, holders of our securities may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

The price of our common stock is volatile.

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

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

As of January 25, 2013, our executive officers, directors and/or entities that these individuals are affiliated with, owned approximately 26% of our outstanding common stock, or approximately 26% on a fully-diluted basis. Accordingly, these individuals and entities will be able to significantly influence most, if not all, of our corporate actions, including the election of directors, the appointment of officers, and potential merger or acquisition transactions

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

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

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

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

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

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

- limited release of the market price of our securities;
- limited news coverage;
- limited interest by investors in our securities;

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

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

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

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

As of January 25, 2013, there are no shares of preferred stock outstanding. The issuance of shares of preferred stock, could adversely affect the voting power of holders of our common stock and the likelihood that these holders will receive dividends and payments upon our liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. We have no current plans to issue any preferred stock in the next 12 months, although the issuance of preferred stock may be necessary in order to raise additional capital.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares of our common stock offered under this prospectus by the selling stockholders. Rather, the selling stockholders will receive those proceeds directly. We have agreed to bear the expenses (other than any underwriting discounts or commissions or agent’s commissions) in connection with the registration of our common stock being offered hereby by the selling stockholders.

DIVIDEND POLICY

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

PRICE RANGE OF COMMON STOCK

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

The following table sets forth the high and low closing sales prices for our common stock as reported on the OTC Bulletin Board for the periods indicated:

Period	High	Low
October 1, 2010/December 31, 2010	$ 0.40	$ 0.18
January 1, 2011/March 31, 2011	$ 0.50	$ 0.34
April 1, 2011/June 30, 2011	$ 0.50	$ 0.28
July 1, 2011/September 30, 2011	$ 0.44	$ 0.21

Period	High	Low
October 1, 2011/December 31, 2011	$ 0.40	$ 0.17
January 1, 2012/March 31, 2012	$ 0.39	$ 0.15
April 1, 2012/June 30, 2012	$ 0.42	$ 0.18
July 1, 2012/September 30, 2012	$ 0.37	$ 0.12

Period	High	Low
October 1, 2012/December 31, 2012	$ 0.36	$ 0.13
January 1, 2013/March 31, 2013 (through March 19, 2013)	$ 0.36	$ 0.16

The closing price of our common stock on March 19, 2013 , as quoted on the OTC Bulletin Board, was $0.28 per share.

Trades in our common stock may be subject to Rule 15g-9 of the Exchange Act, which imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, broker/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction before the sale.

The SEC also has rules that regulate broker/dealer practices in connection with transactions in “penny stocks”. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities listed on some national exchanges, provided that the current price and volume information with respect to transactions in that security is provided by the applicable exchange or system). The penny stock rules require a broker/dealer, before effecting a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing before effecting the transaction, and must be given to the customer in writing before or with the customer’s confirmation. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for shares of common stock. As a result of these rules, investors may find it difficult to sell their shares.

Stockholders

As of March 19, 2013 , the Company had approximately 241 stockholders of record and estimates its total number of beneficial stockholders at approximately 1,100.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

National Holdings Corporation (“we,” “our,” or the “Company”) is 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 National Asset Management Inc. (National Securities and vFinance Investments, are 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”), each is a member of the Securities Investor Protection Corporation (“SIPC”) and are 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.

-21-

As of December 31, 2012, we had approximately 959 associated personnel serving retail and institutional customers, trading and investment banking clients. With the exception of our New York, New Jersey, Florida, and Washington branches, our approximately 80 other registered offices are owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses. These independent operators, many of whom are financial planners, are required to pay their own expenses. This independent contractor model calls for a much higher payout percentage, (typically in the 70-90% range) than the traditional employee model of brokerage which typically only pays between 25-50% of production.

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.

Economic Overview and Impact of Financial Market Events

In the quarter ending December 31, 2012, the U.S. domestic equity markets and the S&P 500 continued to rise from the levels in 2011 and earlier periods in 2012. While corporate profits of US companies have consistently met or exceeded expectations for multiple quarters, concerns over slowing economic growth and the elevated unemployment rate led to the Federal Reserve's announcement of a third round of quantitative easing (announced in the quarter ending September 30, 2012). Uncertainty over U.S. fiscal policy, specifically how the fiscal cliff and sequestration will be handled and continued sovereign debt concerns in Europe are expected to have an effect on the financial markets. While the longer-term outlook of the European debt crisis is uncertain, we continue to maintain nominal direct exposure to sovereign debt securities.

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. Prospective acquisitions may involve payments of material amounts of cash, the incurrence of a significant amount of debt or the issuance of significant amounts of our equity securities, which may be dilutive to our existing stockholders and/or may increase our leverage. We cannot assure you that we will be able to consummate any such potential acquisitions at all or on terms acceptable to us or, if we do, that any acquired business will be profitable. There is also a risk that we will not be able to successfully integrate acquired businesses into our existing business and operations.

Key Indicators of Financial Performance for Management

Management 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, professional fees, taxes and earnings per share.

Critical Accounting Policies and Estimates

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

The Company’s critical accounting policies are as follows:

Revenue Recognition - Customer security transactions and the related commission income and expense are recorded as of the trade date. Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing financial advisory services. Investment banking management fees and sales concessions are recorded on the offering date and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Customers who are financing their transaction on margin are charged interest. The Company’s margin requirements are in accordance with the terms and conditions mandated by its clearing firms, NFS, Legent, ICBC Rosenthal and RJO. The interest is billed based on the customer’s average daily balance of the margin account.

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

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

Common stock Purchase Warrants - The Company accounts for the issuance of common stock purchase warrants issued in connection with capital financing transactions in accordance with the provisions of Accounting Standard Codification 815- Derivatives and Hedging (“ASC 815”). Based on such provisions, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assessed the classification of its derivative financial instruments as of September 30, 2012, which consist of common stock purchase warrants, and determined that such derivatives meet the criteria for equity classification under ASC 815.

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

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments in accordance with Emerging Issues Task Force ("EITF") 00-19. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not 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 subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional (as that term is described).

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

The Company evaluated the conversion option embedded in the -Series A Preferred Stock and determined, in accordance with the provisions of these statements, that such conversion option does not meet the criteria requiring bifurcation of these instruments. The characteristics of the common stock that is issuable upon a holder's exercise of the conversion option embedded in the convertible preferred stock are deemed to be clearly and closely related to the characteristics of the preferred shares (as that term is defined under ASC 815). Additionally, the Company's conversion options, if free standing, would not be considered derivatives subject to the accounting guidelines prescribed under ASC 815.

However, the Company believes that certain conversion features embedded in its Series C and Series D Preferred Stock and the related warrants issued in connection with such instruments were not clearly and closely related to the economic characteristics of the Company's stock price prior to March 31, 2011. Accordingly, the Company recognized derivative liabilities in connection with such instruments. The Company uses judgment in determining the fair value of derivative liabilities at the date of issuance at every Statement of Financial Condition thereafter. The Company uses judgment in determining which valuation is most appropriate for the instrument (e.g., Black Scholes), the expected volatility, the implied risk free interest rate, as well as the expected dividend rate. As of March 31, 2011, the Series C and Series D Preferred Stock and the warrants associated with such Preferred Stock are accounted for as equity contracts.

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.

-24-

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

Three Months Ended December 31, 2012 Compared with Three Months Ended December 31, 2011

Our first quarter of fiscal year 2013 resulted in an increase in revenues, with a commensurate increase in variable expenses compared to the same period last year. As a result, we reported a net operating loss of $41,000 compared with a net operating loss of $1,009,000 for the first quarters of fiscal years 2013 and 2012, respectively.

	Three Months Ended December 31,		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions	$16,041,000	$13,203,000	$2,838,000	21 %
Net dealer inventory gains	2,601,000	3,076,000	(475,000)	-15 %
Investment banking	2,055,000	4,756,000	(2,701,000)	-57 %
Interest and dividends	1,047,000	702,000	345,000	49 %
Transfer fees and clearance services	2,008,000	1,829,000	179,000	10 %
Investment advisory fees and other income	2,694,000	1,832,000	862,000	47 %
	$26,446,000	$25,398,000	$1,048,000	4 %

Total revenues increased $1,048,000, or 4%, in the first quarter of fiscal year 2013 to $26,446,000 from $25,398,000 in the first quarter of fiscal year 2012. The increase in revenues is primarily due to the addition of a new large branch and favorable market conditions in the retail marketplace, along with an improvement in revenues in our asset management offset by lower investment banking revenues.

Commission revenue increased $2,838,000, or 21%, to $16,041,000 from $13,203,000 during the first quarter of fiscal year 2013 compared with the same period in fiscal year 2012, which is attributable to generally more favorable market conditions for corporate securities.

Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $475,000, or 15%, to $2,601,000 from $3,076,000 during the first quarter of fiscal year 2013 compared with the same period in fiscal year 2012. The decrease is primarily due to less favorable trading conditions including lower market volumes, affecting our market making and fixed income trading activities in the quarter ended December 31, 2012 as compared to the same quarter in 2011, offset by $180,000 relating to a markup in 1,800,000 shares of common stock of a company which is in the development stage, that were previously restricted under SEC Rule 144 and valued at $-0-, to $0.10 per share. The $0.10 per share was lower than the quoted market price of the stock which was $0.55 as of December 31, 2012. We determined that the fair market value of these shares is lower than the quoted market price for the following reasons: i.) the limited number of bids it could get for the entire position in one sale transaction, ii.) the timeframe to liquidate the Company’s position in the shares could be one to two years based on the weighted average number of shares that are traded on a daily basis, and iii.) an attempt by the Company to sell the entire position in the open market, would most likely have a material adverse impact on the current market trading price of the shares.

-25-

Investment banking revenue decreased $2,701,000, or 57% to $2,055,000 from $4,756,000 during the first quarter of fiscal year 2013 compared to the same period in fiscal year 2012. This decrease was attributable to a fewer number of successful capital raising events for clients, and less advisory and consulting services provided during the quarter.

Interest and dividend income increased by $345,000 or 49%, to $1,047,000 from $702,000 in the first quarter of fiscal year 2013 compared with the same period in fiscal year 2012. The increase is primarily attributable to higher customer margin account balances, higher customer free cash balances and slightly higher prevailing interest rates during the quarter all tied to the increase in retail sales activity.

Transfer fees and clearance services increased $179,000 or 10%, to $2,008,000 in the first quarter of fiscal year 2013 from $1,829,000 in the first quarter of fiscal year 2012, resulting from a higher number of retail transactions made on behalf of our clients during the most recent quarter.

Investment advisory fees and other income, consisting of asset management fees, other miscellaneous transaction fees and other investment income, increased $862,000, or 47%, to $2,694,000 from $1,832,000 during the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. The increase is due primarily to an increase in assets under management in our registered investment advisory subsidiary, National Asset Management.

Operating Expenses

In comparison with the 4% increase in total revenues, total expenses increased by $71,000, or 0%, to $26,490,000 for the first quarter of fiscal year 2013 compared to $26,419,000 in the first quarter of fiscal year 2012.

	Three Months Ended December 31,		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions, compensation, and fees	$22,835,000	$22,730,000	$105,000	0 %
Clearing fees	422,000	461,000	(39,000)	-8 %
Communications	1,119,000	1,200,000	(81,000)	-7 %
Occupancy, equipment and other administrative expenses	770,000	861,000	(91,000)	-11 %
Professional fees	771,000	531,000	240,000	45 %
Interest	165,000	276,000	(111,000)	-40 %
Taxes, licenses and registration	408,000	360,000	48,000	13 %
	$26,490,000	$26,419,000	$71,000	0 %

Commissions, compensation, and fees, which primarily includes expenses related to commission revenue, net dealer inventory gains and investment banking, increased $105,000, or 0%, to $22,835,000 in the first quarter of fiscal year 2013 from $22,730,000 in the first quarter of fiscal year 2012. The increase is primarily attributable to an increase in retail commission revenues offset by a decrease in investment banking and trading revenue, but with an improvement in gross margin retention on the banking and trading commissions. Commission expense also includes the amortization of advances to registered representatives aggregating $60,000 and $83,000 for the first quarter of fiscal year 2013 and 2012, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have committed to be affiliated with National Securities. Compensation includes the amortization of the fair value associated with stock based compensation of $0 and $6,000 in first quarter of fiscal years 2013 and 2012, respectively.

Clearing fees decreased $39,000, or 8%, to $422,000 in the first quarter of fiscal year 2013 from $461,000 in the first quarter of fiscal year 2012. This decrease is primarily a result of a slightly higher average per ticket revenue with fewer total transactions, due mostly to managed account fee revenue being a slightly higher percentage of total revenue over the same period last year.

Communications expenses decreased by $81,000, or 7% to $1,119,000 in the first quarter of fiscal year 2013 from $1,200,000 in the first quarter of fiscal year 2012. This decrease is primarily due to renegotiated contracts with our primary communications carrier and a reduction of duplicative equipment and communications service costs which were necessitated by the fire in the first fiscal quarter of 2011. Occupancy, equipment and other administrative expenses decreased $91,000, or 11%, to $770,000 from $861,000 in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. This decrease is primarily attributable to the reduction of overall square footage of space rented by the Company.

Professional fees increased $240,000, or 45% to $771,000 from $531,000 in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. This increase is attributed to continued cost of defense associated with various arbitrations as well as an increase in general corporate matters.

Interest expense decreased by $111,000, or 40%, to $165,000 from $276,000 in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. The decrease is primarily due to the repayment of our notes payable during fiscal year 2012 and the fully amortized debt discount associated with that debt. The amortization expense during the first quarters of fiscal 2013 and 2012, was of $0 and $99,000 respectively.

Taxes, licenses and registration increased $48,000, or 13%, to $408,000 from $360,000 in the first quarter of fiscal year 2013 compared to the first quarter of fiscal year 2012. This increase in taxes, licenses and registration is primarily due to the transfer of certain retail brokers from vFinance Investments to National Securities in the first fiscal quarter causing duplicative registration costs.

Fiscal Year 2012 Compared with Fiscal Year 2011

The Company's fiscal year 2012 resulted in a decrease in revenues, and a correlated decrease in variable expenses as well as cost savings in compensation and other fixed costs as implemented by management, compared with fiscal year 2011. As a result, the Company reported a net loss of $1,937,000 compared with a net loss of $4,713,000 for the fiscal years 2012 and 2011, respectively.

Revenues

	Fiscal Year		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions	$ 70,301,000	$ 85,296,000	$ (14,995,000)	-18%
Net dealer inventory gains	14,427,000	14,261,000	166,000	1%
Investment banking	15,390,000	6,930,000	8,460,000	122%
Interest and dividends	2,996,000	3,586,000	(590,000)	-16%
Transfer fees and clearing services	7,196,000	8,528,000	(1,332,000)	-16%
Investment advisory fees	8,092,000	7,567,000	525,000	7%
Other	246,000	353,000	(107,000)	-30%
	$ 118,648,000	$ 126,521,000	$ (7,873,000)	-6%

Total revenues decreased $7,873,000, or 6%, in fiscal year 2012 to $118,648,000 from $126,521,000 in fiscal year 2011. The decrease in revenues is primarily due to less favorable market conditions in retail brokerage offset by an increase in investment banking as described in our overview of the business environment.

Commissions revenues decreased by $14,995,000, or 18%, to $70,301,000 from $85,296,000 during fiscal 2012 when compared to the prior year, primarily due to less favorable general market conditions resulting in lower volume of transactions made on behalf of our clients.

Net dealer inventory gains, which includes profits on proprietary trading, market making activities, and customer mark-ups and mark-downs increased by $166,000, or 1%, to $14,427,000 from $14,261,000 during fiscal 2012 when compared to fiscal 2011, primarily due to slightly more favorable trading conditions affecting our market making and fixed income trading activities in the year ended September 30, 2012, as compared to the prior year period.

Investment banking fees increased $8,460,000, or122%, to $15,390,000 from $6,930,000,during fiscal 2012 when compared to the prior year, primarily from a larger number of and generally larger average size of successful capital raising events for clients, and advisory and consulting services provided during the year.

Interest and dividend revenue primarily consists of interest on customer margin account balances. Interest and dividends decreased by $590,000, or 16% to $2,996,000 from $3,586,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to somewhat lower customer margin account balances, lower customer free cash balances, and slightly lower prevailing interest rates during the year.

Transfer fees and clearing service revenue, which primarily consists of fees charged to our registered representatives to execute on their behalf, decreased by $1,332,000, or 16%, to $7,196,000 from $8,528,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to a lower number of transactions made on behalf of our clients during the most recent year.

Investment advisory fees, which primarily consists of fees charged to our clients in our asset based money management group, increased by $525,000, or 7%, to $8,092,000 from $7,567,000 during fiscal 2012 when compared to the prior year. The increase is primarily due to an increase in assets under management during the most recent year.

Other revenue which consists of transaction fees charged to our customers and other investment income decreased by $107,000, or 30%, to $246, 000 from $353,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to a lower number of these transactions made on behalf of our clients during the most recent year.

Operating expenses

	Fiscal Year		Increase (Decrease)	
	2012	2011	Amount	Percent
Commissions, compensation, and fees	$ 103,800,000	$ 113,325,000	$ (9,525,000)	-8%
Clearing fees	1,662,000	2,107,000	(445,000)	-21%
Communications	4,731,000	4,571,000	160,000	4%
Occupancy and equipment costs	4,189,000	5,052,000	(863,000)	-17%
Professional fees	2,714,000	1,831,000	883,000	48%
Interest	916,000	1,147,000	(231,000)	-20%
Taxes, licenses and registration	1,536,000	1,639,000	(103,000)	-6%
	$ 119,548,000	$ 129,672,000	$ (10,124,000)	-8%

In comparison with the 6% decrease in total revenues, total expenses decreased 8%, or $10,124,000, to $119,548,000 for fiscal year 2012 compared to $129,672,000 in fiscal year 2011. The decrease in total expenses is primarily the result of decreased commission expense which is consistent with the decrease in commission revenues combined with a decrease in occupancy and equipment costs resulting from managements' cost cutting efforts and the reduction of space in our New York office.

Commission, compensation, and fees expenses, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as base compensation to our employees, brokers, and support staff, decreased by $9,525,000, or 8%, to $103,800,000 from $113,325,000 during fiscal year 2012 when compared to the prior year. The decrease is primarily attributable to a decrease in commission expense related to retail commission revenues, savings in salaries and other expenses as a result of cost cutting efforts by management, offset by a smaller increase in commission expense related to investment banking revenue and net dealer inventory gains. Commission expense also includes the amortization of advances to registered representatives aggregating $265,000 and $392,000 for fiscal 2012 and 2011, 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 includes the amortization of the fair value associated with stock based compensation of $10,000 and $265,000 in fiscal 2012 and 2011, respectively.

Clearing fees decreased $445,000 or 21% to $1,662,000 from $2,107,000 during fiscal 2012 when compared to the prior year. The decrease is commensurate with a decrease in transaction volumes and clearance service revenues in fiscal 2012.

Communication expenses increased $160,000 or 4%, to $4,731,000 from $4,571,000 during fiscal 2012 when compared to the prior year. This increase is primarily due to a temporary duplication in costs necessitated by the replacement of our primary phone system in our headquarters in New York due to fire damage, which occurred during the first quarter of fiscal 2012. Occupancy, equipment and other administrative expenses decreased $863,000, or 17%, to $4,189,000 from $5,052,000 during fiscal 2012 when compared to the prior year. This decrease is primarily due to the reduction of space rented in our New York office after the fire which occurred in the first quarter of fiscal 2012 and other savings on rental costs due to renegotiated leases and the consolidation of some of the Company's smaller offices upon lease expiration.

Professional fees increased $883,000, or 48% to $2,714,000 from $1,831,000 during fiscal 2012 when compared to the prior year. The increase in professional fees is primarily a result of litigation costs associated with the New York City office rental abatement issue coupled with generally higher legal costs associated with arbitrations and civil matters and the consulting fees related to the trading group that joined the Company in fiscal 2012. The rental abatement issue was resolved in fiscal 2012. Additionally, in fiscal 2011 the Company received reimbursements from its insurance company primarily for legal fees in conjunction with two settlements of approximately $350,000.

Interest expense decreased by $231,000, or 20%, to $916,000 from $1,147,000 during fiscal 2012 when compared to the prior year. The decrease is primarily due to the payoff of $4.2 million of debt in March and September 2012, lower amortization of debt discount and lower rates on the remaining interest bearing debt. There was no amortization of debt discount during the second half of fiscal 2012, as it had been fully recorded by the second quarter of 2012 and we satisfied principal aggregating $4.2 million in a note bearing interest at 10% with a $5.0 million note bearing interest at 6% and a $1.0 million note bearing interest at 10% during fiscal 2012.

Taxes, licenses and registration decreased $103,000, or 6%, to $1,536,000 from $1,639,000 during fiscal 2012 compared to 2011. This decrease is not material.

Loss on disposition of unconsolidated joint venture

In April 2012, we relinquished our interest in an unconsolidated joint venture, Opus, resulting in a loss of disposition of such investment of $1,051,000 which was recorded at June 30, 2012. We did not incur such losses during fiscal 2011.

Increase in fair value of derivative liabilities

We did not have any derivative liabilities outstanding during fiscal year 2012. The fair value of derivative liabilities, as computed between measurement dates, increased by approximately $1.6 million during fiscal year 2011. The increase in fair value of derivative liabilities in 2011 was primarily due to an increase in our quoted price per share between measurement dates, which is one of the main assumptions in our computation of derivative liabilities.

The Company reported a net loss of $1,937,000 in fiscal year 2012 compared to a net loss of $4,713,000 in fiscal year 2011. The net loss attributable to common stockholders in fiscal year 2012 was $2,030,000 or $0.08 per common share, as compared to a net loss attributable to common stockholders of $5,127,000, or $0.18 per common share in fiscal year 2011. The net loss attributable to common stockholders for fiscal years 2012 and 2011 reflects $93,000 and $414,000, respectively, of cumulative preferred stock dividends on the Company's preferred stock.

-30-

Non-G.A.A.P. Information for the Three Months Ended December 31, 2012 Compared with Three Months Ended December 31, 2011

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For the three months ended December 31, 2012 and 2011, EBITDA, as adjusted, was $476,000 and ($311,000), respectively. This increase of $787,000 in the three months ended December 31, 2012 over 2011 resulted primarily from an increase in revenues and improved operating efficiencies.

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

	Three Months Ended December 31,			
	2012		2011	
Net loss, as reported	$	(41,000)	$	(1,009,000)
Interest expense		165,000		276,000
Taxes		20,000		29,000
Depreciation		117,000		149,000
Amortization		155,000		155,000
EBITDA		416,000		(400,000)
Non-cash compensation expense		-		6,000
Forgivable loan write-down		60,000		83,000
EBITDA, as adjusted	$	476,000	$	(311,000)

Non-G.A.A.P. Information for the Fiscal Year Ended September 30, 2012 Compared with September 30, 2011

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our board of directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-related compensation and changes in fair value of derivative liabilities. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For fiscal year 2012 and 2011, EBITDA, as adjusted, was $1,529,000 and $119,000, respectively. This improvement of $1,410,000 during fiscal 2012 when compared to 2011 resulted from a general decrease in operating expenses partially offset by a lower decrease in revenues.

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

	Fiscal Year Ended			
	2012		2011	
Net loss, as reported	$	(1,937,000)	$	(4,713,000)
Interest expense		916,000		1,147,000
Taxes		153,000		148,000
Depreciation		533,000		633,000
Amortization		538,000		644,000
EBITDA		203,000		(2,141,000)
Non-cash compensation expense		10,000		265,000
Forgivable loan write-down		265,000		392,000
Loss on disposition of unconsolidated joint venture		1,051,000	-	
Change in fair value of derivative liabilities	-			1,603,000
EBITDA, as adjusted	$	1,529,000	$	119,000

EBITDA, as adjusted for, non-cash compensation expense, forgivable loan write-down and changes in fair value of derivative liabilities, is a key metric we use in evaluating our business. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC.

Liquidity and Capital Resources

	Ending balance at		Average balance during	
	December 31, 2012	December 31, 2011	during first three months 2013	2012
Cash	$7,444,000	$6,143,000	7,689,000	6,420,500
Receivables from broker-dealers and clearing organizations	2,590,000	2,411,000	3,120,000	2,562,500
Marketable securities	653,000	936,000	674,500	1,390,000
Accounts payable and accrued expenses, and other liabilities	10,603,000	11,410,000	11,081,500	11,621,000
Convertible notes payable excluding debt discount	6,800,000	6,000,000	6,800,000	6,000,000
Subordinated borrowings	1,000,000	70,000	1,000,000	85,000

We maintain a highly liquid balance sheet. At December 31, 2012 and 2011, 69% and 62%, respectively, of our total assets consisted of cash, marketable securities owned and receivables from clearing brokers and other broker-dealers. The level of cash used in each asset class is subject to fluctuation based on market volatility, revenue production and trading activity in the marketplace.

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 December 31, 2012, National Securities' net capital exceeded the requirement by approximately $1,191,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000 and EquityStation is required to maintain $50,000, and at December 31, 2012 these Broker-Dealer Subsidiaries had excess net capital of approximately $612,000 and $62,000, respectively.

Advances, dividend payments and other equity withdrawals from the Broker-Dealer Subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During the first quarters of fiscal 2013 and 2012, the Broker-Dealer Subsidiaries were in compliance with the rules governing dividend payments and other equity withdrawals.

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

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

To provide additional liquidity and to further increase our regulatory capital reserves, on January 25, 2013, we issued approximately 29,450,000 shares of the Company's common stock for an aggregate purchase price of approximately $8.8 million. Our primary sources of liquidity include the sale of our securities and other financing activities and our cash flow from operations. Based on our current level of operations, we believe our available cash will be adequate to meet our future liquidity needs through at least fiscal year 2013.

We do not have any material commitments for capital expenditures. We routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have ranged between $35,000 and $77,000 during the first quarters of fiscal 2013 and 2012, respectively.

	Three-months ended December 31,	
	2012	2011
Cash flows from operating activities		
Net loss	$ (41,000)	$ (1,009,000)
Non-cash adjustments		
Depreciation and amortization	294,000	305,000
Amortization of forgivable loans to brokers	60,000	83,000
Amortization of note discount	-	99,000
Other	(15,000)	126,000
Changes in assets and liabilities		
Receivables from broker-dealers, clearing organizations and others	1,060,000	303,000
Securities owned	(365,000)	(521,000)
Accounts payable, accrued expenses, and other liabilities	(957,000)	28,000
Other	(491,000)	138,000
Net cash used in operating activities	(455,000)	(448,000)
Cash flows used in investing activities		
Purchase of fixed assets	(35,000)	(77,000)
	(35,000)	(77,000)
Cash flows used in financing activities		
Repayment of subordinated borrowings	-	(30,000)
	-	(30,000)
Net variation in cash	$ (490,000)	$ (555,000)

Quarter ended December 31, 2012

The decrease in receivables from clearing organizations, broker-dealers and others during the first quarter of fiscal 2013 is primarily due to the higher percentage of commission revenues being derived from markups versus commissions in December 2012 as compared to December 2011. These receivables are typically received within 30 days of the close of the month. Changes in securities owned are primarily due to a general increase in securities held for trading as well as a $180,000 increase in the valuation of non-marketable warrants and securities held as at December 31, 2012, which the Company received as compensation for investment banking deals. The decrease in accounts payable, accrued expenses and other liabilities at December 31, 2012 as compared to December 31, 2011 is primarily due to faster payment processing due to cash generated from our financing in September 2012.

Cash used in investing activities during the first quarter of 2013 amounted to $35,000 and primarily consisted recurring purchases of computer equipment.

Quarter ended December 31, 2011

The decrease in receivables from clearing organizations, broker-dealers and others during the first quarter of fiscal 2012 is primarily due to a commensurate increase in our revenues for the period.

Cash used in investing activities for the three-month period ended December 31, 2011 amounted to $77,000, which consists of recurring purchases of computer equipment.

Cash used in financing activities for the three-month period ended December 31, 2011 amounted to $30,000 which consists of principal repayments on subordinated borrowings.

Operating cash flows from period to period

Our net cash used in operating activities increased to $455,000 from $448,000 for the first quarters of fiscal 2013 and 2012, respectively. Such increase is primarily attributable to aforementioned changes in assets and liabilities during the respective periods.

Liquidity and Capital Resources

Sources of liquidity and capital resources

	Ending Balance September 30,		Average Balance during fiscal	
	2012	2011	2012	2011
Cash	$7,934,000	$6,698,000	$7,316,000	$6,044,000
Receivables from broker-dealers and clearing organizations	3,650,000	2,714,000	3,182,000	3,116,000
Marketable securities	696,000	454,000	575,000	567,000
Accounts payable, accrued expenses and other liabilities	11,560,000	11,832,000	11,696,000	11,887,500
Convertible notes payable excluding debt discount	6,800,000	6,000,000	6,400,000	6,000,000
Notes payable	-	-	-	250,000
Subordinated borrowings	1,000,000	100,000	550,000	425,000

At September 30, 2012 and 2011, 74% and 60%, respectively, of our total assets consisted of cash and cash equivalents, marketable securities owned and receivables from clearing brokers and other Broker-Dealers. The level of cash used in each asset class is subject to fluctuation based on market volatility, revenue production and trading activity in the marketplace. Allocation of cash into marketable securities classes are dependent upon overall market activity, but the majority of our securities owned are in municipal securities and common stock.

Our Broker-Dealer Subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer's net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At September 30, 2012, National Securities’ net capital exceeded the requirement by approximately $1,144,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000 and EquityStation is required to maintain $50,000, and at September 30, 2012 the firms had excess net capital of approximately $639,000 and $95,000 respectively.

Advances, dividend payments and other equity withdrawals from the Company’s Broker-Dealer subsidiaries are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During 2012 and 2011, the Broker-Dealer subsidiaries were in compliance with the rules governing dividend payments and other equity withdrawals.

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

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

Our primary sources of liquidity include the sale of our securities and other financing activities and our cash flow from operations. We believe that we have sufficient funds from operations to fund our ongoing operating requirements through at least 2012. However, we may need to raise funds to enhance our working capital and use them for strategic purposes.

At September 30, 2012, our parent company had total indebtedness of $7.8 million. We cannot assure you that our operations will generate funds sufficient to repay our existing debt obligations as they come due. Our failure to repay our indebtedness and make interest payments as required by our debt obligations could have a material adverse effect on our operations. The Company has secured convertible promissory notes aggregating $5,000,000 during March, April and September 2012 and a subordinated note of $1.0 million during September 2012, which may mature as early as August 2013, or, if certain conditions are met, in March 2015. We used a portion of the proceeds from the convertible promissory notes and subordinated notes to satisfy the principal of $4.2 million convertible promissory notes which matured in March and June 2012. The Company also has a remaining obligation of $1.8 million convertible promissory note which now matures in January 2013. Such notes are unsecured, are solely the obligation of our parent company and not any of its operating subsidiaries, including our broker-dealer subsidiaries. Such notes are due to entities affiliated to two of the Company’s directors. Our plan is to satisfy our remaining obligations under the $1.8 million convertible note and the $1.0 million subordinated note by either: 1) providing incentives to the holders to either extend the maturity of the notes or convert the notes into our shares of common stock, 2) securing additional financing between now and the maturity dates to repay the notes, 3) repay the notes in cash and other available current assets at maturity, or 4) a combination of the aforementioned options. Additionally, we intend to satisfy our obligations under the $5,000,000 convertible promissory notes by either: 1) securing the acceptance of the holder of its capital restructuring, which would allow the Company to firmly extend the maturity of the note to March 2015, and 2) encourage the holder to convert its note to the Company’s Series E Preferred Stock in due course. While the Company believes that it will ultimately satisfy its obligations under such convertible notes, it cannot guarantee that it will be able to do so at favorable terms, or at all. Should the Company default on the convertible notes and the lender forecloses on the debt, the operations of our subsidiaries will not be initially impacted. However, following default, the lender could potentially liquidate the holdings of our operating subsidiaries sometime in the future in accordance with applicable SEC and Financial Industry Regulatory Authority, Inc. (“FINRA”) (formerly the National Association of Securities Dealers) rules and regulations.

We do not have any material commitments for capital expenditures. We routinely purchase computer equipment and technology to maintain or enhance the productivity of our employees and such capital expenditures have ranged between $221,000 and $480,000 during fiscal 2012 and 2011, respectively.

	Year ended September 30, 2012	2011
Cash flows from operating activities		
Net Loss	$(1,937,000)	$(4,713,000)
Non-cash adjustments		
Depreciation and amortization	1,154,000	1,254,000
Loss on disposition of unconsolidated joint venture	1,051,000	-
Amortization of advances to registered representatives	265,000	392,000
Increase in fair value of derivative liabilities	-	1,603,000
Fair value of options	10,000	265,000
Other	55,000	270,000
Changes in assets and liabilities		
Receivables from clearing organizations, broker-dealers and others	(786,000)	1,420,000
Marketable securities	(307,000)	310,000
Accounts payable and accrued expenses and other liabilities	773,000	(690,000)
Other	29,000	47,000
Net cash provided by operating activities	307,000	158,000
Cash flows used in investing activities		
Redemption of note receivable	-	500,000
Capital contributions to unconsolidated joint venture	(550,000)	(501,000)
Purchase of fixed assets	(221,000)	(480,000)
	(771,000)	(481,000)
Cash flows from financing activities		
Repayment of subordinated borrowings, net	900,000	(650,000)
Proceeds from convertible notes payable	5,000,000	-
Repayment of notes and convertible notes payable	(4,200,000)	(500,000)
Proceeds from issuance of common and preferred stock, net	-	2,781,000
	1,700,000	1,631,000
Net variation in cash	$1,236,000	$1,308,000

Year ended September 30, 2012

The increase in receivables from clearing organizations, broker-dealers and others at September 30, 2012 as compared to September 30, 2011 is primarily due to the higher revenues in September 2012 as compared to September 2011 revenues. These receivables are typically received within 30 days of the close of the prior month. Changes in securities owned are primarily due to a general increase in securities held for trading as well as increase in the valuation of non-marketable warrants and securities held, which the Company received as compensation for investment banking deals. The increase in accounts payables, accrued expenses and other liabilities at September 30, 2012 as compared to September 30, 2011 is primarily due to the higher commissions payable consistent with the revenues in September 2012 as compared to September 2011 revenues.

Cash used in investing activities during fiscal 2012 amounted to $771,000 which was primarily due to the need to complete the funding of an investment in an unconsolidated joint venture of $550,000, resulting from prior obligations and by recurring purchases of computer equipment of $221,000.

Cash provided by financing activities during fiscal 2012 amounted to $1,700,000 and resulted primarily from an issuance of convertible notes payable and subordinated debt of $6,000,000 which partly satisfied our obligations under two outstanding convertible notes payable of $4,200,000. Additionally, we made net repayments of $100,000 of our subordinated borrowings during the same period.

Year ended September 30, 2011

The decrease in receivables during fiscal 2011of $1,420,000 is primarily due to a decrease in receivables from clearing firms resulting from lower revenues during the month of September year over year, and the decrease in payables during fiscal 2011 of $690,000 is primarily due to a decrease in commissions payable corresponding to the lower sales during the month of September year over year.

Cash used in investing activities during fiscal 2011 amounted to $481,000 which was primarily due to the redemption of a note receivable of $500,000, offset by recurring purchases of computer equipment of $480,000 and an investment in an unconsolidated joint venture of $501,000.

Cash provided by financing activities of $1,631,000 during fiscal 2011 and was primarily due to net proceeds from the issuance of Series D Preferred Stock and our shares of common stock aggregating $2,750,000, offset by principal repayments aggregating $1,150,000 of subordinated borrowings and notes payable.

Operating cash flows from period to period

Our cash flows from operating activities increase to $307,000 from $158,000 for fiscal years 2012 and 2011, respectively. Such increase is primarily attributable to the following:

- Aforementioned changes in assets and liabilities during the respective periods, and;
- Overall greater decrease in operating expenses offset by lower revenues.

Inflation

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

Off-Balance Sheet Arrangements

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

Recently Adopted Accounting Guidance

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

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

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about offsetting assets and liabilities, an accounting update that creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the statement of financial condition or subject to an enforceable master netting arrangement or similar arrangement. The disclosure requirements are effective for the Company beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company's consolidated statements of income or financial condition.

Recent Accounting Guidance Not Yet Adopted

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about offsetting assets and liabilities, an accounting update that creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the statement of financial condition or subject to an enforceable master netting arrangement or similar arrangement. The disclosure requirements are effective for the Company beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company's condensed consolidated statements of income or financial condition.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this prospectus. This prospectus and our consolidated financial statements and notes to consolidated financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business and growth strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including:

- fluctuations in the market price of ethanol and its co-products;
- the projected growth or contraction in the ethanol and co-product markets in which we operate;
- our strategies for expanding, maintaining or contracting our presence in these markets;
- our ability to successfully manage and operate third party ethanol production facilities;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

Quantitative and Qualitative Disclosure about Market Risk

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

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

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

The following table shows the market values of the Company's marketable and non-marketable securities owned and securities sold, but not yet purchased as of December 31, 2012:

As of December 31, 2012 Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$70,000	187,000	-	$257,000
Corporate bonds	-	-	-	-
Government obligations	583,000	-	-	583,000
Restricted stock	-	295,000	-	295,000
	$653,000	$482,000	$-	$1,135,000

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

BUSINESS

General

National Holdings Corporation, a Delaware corporation organized in 1996, is a financial services organization, operating primarily through its wholly-owned subsidiaries, National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York, New York, Boca Raton, Florida, and Seattle, Washington.

Through its Broker-Dealer Subsidiaries, the Company (1) offers full service retail brokerage to approximately 39,000 high net worth individual and institutional clients, (2) provides investment banking, merger and acquisition and advisory services to micro, small and mid-cap high growth companies, and (3) engages in trading securities, including making markets in over 5,800 securities, providing liquidity in both foreign and domestic issues on a variety of exchanges and also providing execution and technical analysis 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 SEC, are members of the FINRA, Securities Investor Protection Corporation ("SIPC") and are also members of the National Futures Association ("NFA").

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

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

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

Recent Developments

NASD Rule 1017

In September 2012, EquityStation filed pursuant to NASD Rule 1017, a request to transfer its business assets, primarily its customer accounts and brokers, to its affiliate, vFinance Investments and to withdraw its membership from FINRA. On December 10, 2012, FINRA advised the Company that the request had been approved and the transfer of assets was made accordingly.

In September 2012, vFinance Investments filed pursuant to NASD Rule 1017, a request to transfer its retail business assets, primarily its customer accounts and brokers, to its affiliate, vFinance Investments. On December 13, 2012, FINRA advised the Company that the request had been approved and the transfer of assets was made accordingly on December 14, 2012.

The effect of these changes is not expected to have a material impact on the revenue or profitability of the Company in future reporting.

Private Placement and Recapitalization

On January 25, 2013, the Company issued approximately 29,450,000 shares of the Company's common stock for an aggregate purchase price of approximately $8.8 million. The Company will use the proceeds from the issuance of the shares to repay certain outstanding indebtedness and for general corporate, working capital, and net capital purposes and associated costs and fees relating to the transaction.

Additionally, the Company granted registration rights to these investors. The registration rights provide for, among other things, registration payment arrangements. The Company has agreed to use its commercially reasonable efforts to (i) file with the Securities and Exchange Commission (the "SEC") as soon as practicable but in no event later than 45 days of the date of the Closing, a registration statement covering the resale of the shares issued in the private placement and (ii) have the registration statement be declared effective under the Securities Act of 1933, as amended (the "Securities Act"), no later than April 25, 2013 or if there is a review of the registration statement by the SEC, May 25, 2013. In the event that (1) a registration statement is not declared effective by such dates, (2) after the date the registration statement is declared effective by the SEC, (a) a registration statement ceases for any reason, to remain continuously effective or (b) the investors are not permitted to utilize the prospectus included in the registration statement therein to resell their shares, in each case, for more than an aggregate of 20 consecutive days or 45 days during any 12-month period, or (3) the Company fails to satisfy the current public information requirement pursuant to Rule 144(c)(1) under the Securities Act, it shall pay to each investor an amount in cash equal to approximately $88,000 on the date the failure occurs and every 30 days thereafter, until cured subject to a maximum amount of up to approximately $880,000.

On January 24, 2013, the Company issued 9,416,691 shares of its common stock in connection with the conversion of all issued and outstanding shares of Series C and D Preferred Stock , which amounted to 34,169 and 60,000 shares, respectively.

During January 2013, the Company issued 10,000,000 shares of its common stock in satisfaction of obligations under convertible notes aggregating $5,000,000.

On January 24, 2013, the Company issued to certain holders of warrants 12,951,196 shares of common stock in consideration of the cancellation of 17,426,187 warrants. These warrants were originally issued in connection with the Company's issuance of shares of its Series C, D, and E Convertible Preferred Stock. Following this transaction, such warrant holders hold 1,990,505 warrants.

Clearing Relationships

Our Broker-Dealer Subsidiaries have clearing arrangements with National Financial Services LLC ("NFS"), COR Clearing LLC ("COR")(formerly known as Legent Clearing, ICBC (formerly known as Fortis Securities, LLC ("ICBC"), Rosenthal Collins Group, LLC. ("Rosenthal"), and R.J. O'Brien ("RJO").

Financial Information about Industry Segments

The Company realized approximately 78% and 83% of its total revenues in the first three months of fiscal 2013 and in fiscal year 2012, respectively, from brokerage services, principal and agency transactions, and investment banking. During the first three months of fiscal year 2013 and 2012, brokerage services consisting of retail brokerage commissions represented 61% and 52%, respectively, of total revenues, principal and agency transactions consisting of net dealer inventory gains represented 10 % and 12%, respectively, of total revenues, and investment banking, consisting of corporate finance commissions and fees, represented 8% and 18.7%, respectively, of total revenues. For a more detailed analysis of our results by segment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus.

Brokerage Services

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

Our goal is to meet the needs of our investment executives and their clients. To foster individual service, flexibility and efficiency and to reduce fixed costs, our investment executives primarily act as independent contractors responsible for providing their own office facilities, sales assistants, telephone, Internet, computer and other equipment, software, quote service, supplies and other items of overhead. Investment executives are given broad discretion to structure their own practices and to specialize in different areas of the securities market subject to supervisory procedures and applicable rules and regulations. In addition, investment executives have direct access to research materials, management, traders, and all levels of support personnel.

The brokerage services provided by our investment executives include execution of purchases and sales of stocks, bonds, mutual funds, annuities and various other securities for individual and institutional customers. In fiscal year 2012, stocks and options represented approximately 69% of our business, bonds represented approximately 12% of our business, and mutual funds and annuities and insurance made up approximately 19% of our business. The percentage of each type of business varies over time as the investment preferences of our customers change based on market conditions.

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

We generally act as an agent in executing customer orders to buy or sell listed and over-the-counter securities in which we do not make a market, and charge commissions based on the services we provide to our customers. In executing customer orders to buy or sell a security in which we make a market, we may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. We may also act as agent and execute a customer's purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. We believe our mark-ups, mark-downs and commissions are competitive based on the services we provide to our customers. In each instance the commission charges, mark-ups or mark-downs, are to be in compliance with guidelines established by FINRA. In order to increase revenues generated from these activities, we continuously seek to hire additional registered representatives and work with our current registered representatives to increase their productivity.

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

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

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

As of December 31, 2012, we had approximately 924 associates of which 143 were employees and 781 were independent contractors. Of these approximately 657 were registered representatives. Persons who have entered into independent contractor agreements are not considered employees for purposes of determining our obligations for federal and state withholding, unemployment and social security taxes. Our independent contractor arrangements conform to accepted industry practice, and therefore, we do not believe there is a material risk of an adverse determination from the tax authorities that would have a significant effect on our ability to recruit and retain investment executives or on our current operations and financial results of operations. There is no assurance that the tax status of our independent contractors will not change as a result of regulatory or legislative actions. No employees are covered by collective bargaining agreements and we believe our relations are good with both our employees and independent contractors.

Our business plan includes the growth of our retail and institutional brokerage business, while recognizing the volatility of the financial markets. In response to historical market fluctuations, we have periodically adjusted certain business activities, including proprietary trading and market-making trading. We believe that consolidation within the industry may occur and we may consider strategic acquisitions in the future, but we are focused on generating positive cash flow and achieving profitability of our existing operations.

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

Principal and Agency Transactions

We buy and maintain inventories in equity securities as a "market-maker" for sale of those securities to other dealers and to our customers. We may also maintain inventories in corporate, government and municipal debt securities for sale to customers. The level of our market-making trading activities will increase or decrease depending on the relative strength or weakness of the broader markets. As of December 31, 2012, we made markets in over 5,800 micro and small-cap, NASDAQ and other exchange-listed stocks.

We anticipate that we will continue market-making trading activity in the future, which may include companies for which we managed or co-managed a public offering.

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

In executing customer orders to buy or sell a security in which we make a market, we may sell to, or purchase from, customers at a price that is substantially equal to the current inter-dealer market price plus or minus a mark-up or mark-down. We may also act as agent and execute a customer's purchase or sale order with another broker-dealer market-maker at the best inter-dealer market price available and charge a commission. We believe our mark-ups, mark-downs and commissions are competitive based on various factors including the services we provide to our customers.

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

Investment Banking

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

Institutional Services

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

As of December 31, 2012, we employed or had contractual relationships with approximately 10 individuals providing institutional services, approximately six of whom provide hedge fund related services. We service approximately 200 institutional customers, of which approximately 85 are hedge funds. For the first three months of fiscal year 2013 and for the fiscal year ended September 30, 2012, hedge fund related services accounted for approximately $1.2 million and $5.0 million respectively, in revenue.

Internet Strategy

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

Administration, Operations, Securities Transactions Processing and Customer Accounts

Our Broker-Dealer Subsidiaries do not hold any funds or securities for customers. Instead, they use the services of clearing agents on a fully-disclosed basis. These clearing agents process all securities transactions and maintain customer accounts. Customer accounts are protected through the SIPC for up to $500,000, of which coverage for cash balances is limited to $250,000. In addition to SIPC protection, our clearing agent provides brokerage accounts additional “excess of SIPC” coverage from Lloyd’s of London, together with other insurers. The “excess of SIPC” coverage would only be used when SIPC coverage is exhausted. Like SIPC protection, “excess of SIPC” protection does not cover investment losses in customer accounts due to market fluctuation. It also does not cover other claims for losses incurred while broker-dealers remain in business. Total aggregate “excess of SIPC” coverage available through our clearing agent “excess of SIPC” policy is $1 billion. Within the “excess of SIPC” coverage, there is no per account dollar limit on coverage of securities, but there is a per account limit of $1.9 million on coverage of cash. This is the maximum “excess of SIPC” protection currently available in the brokerage industry.

Competition

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

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

-46-

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

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

Government Regulation and Supervision

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

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

National Securities has elected to use the alternative standard method permitted by the Rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. The alternative method precludes National Securities from having to calculate a ratio of aggregate indebtedness to net capital. At December 31, 2012, National Securities had net capital of approximately $1,191,000 which was approximately $941,000 in excess of its required net capital of $250,000.

Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000. In addition to the net capital requirements, vFinance Investments is required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2012, vFinance Investments had net capital of approximately $1,612,000, which was approximately $612,000 in excess of its required net capital of $1,000,000, and its percentage of aggregate indebtedness to net capital was 112.5%. At December 31, 2012, EquityStation had net capital of approximately $112,000, which was approximately $62,000 in excess of its required net capital of $50,000, and its percentage of aggregate indebtedness to net capital was 20.8%. Each of the Broker-Dealer Subsidiaries qualifies under the exemptive provisions of Rule 15c3-3 which relates to the custody of securities for the account of customers pursuant to Section (k)(2)(ii) of the Rule as none of them carry security accounts of customers or perform custodial functions related to customer securities.

The Exchange Act and the FINRA Conduct Rules require our Broker-Dealer Subsidiaries to supervise the activities of its investment executives. As part of providing such supervision, these subsidiaries maintain written supervisory procedures. Compliance personnel and outside auditors conduct inspections of branch offices periodically to review compliance with the Company's procedures. A registered principal provides onsite supervision at each of the Broker-Dealer Subsidiaries’ larger offices. The other offices (averaging two investment executives per office) are not required by FINRA rules to have a registered principal on site and are therefore supervised by registered principals off site. Designated principals review customer trades to ensure compliance with FINRA Conduct Rules including mark-up guidelines.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) establishes new and enhanced compensation and corporate governance oversight for the financial services industry, provides a specific framework for payment, clearing and settlement regulation, and empowers the SEC to adopt regulations requiring new fiduciary duties and other more stringent regulation of broker-dealers, investment companies and investment advisers. Our existing policies and procedures already provided for much of the Dodd-Frank Act new requirements.

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

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

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

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

Intellectual Property

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

Employees

As of December 31, 2012, the Company employed the following personnel:

Position	Salaried Employees	Independent Contractors	Total
Officers	8	0	8
Administration	76	225	301
Brokers	22	548	570
Traders	31	0	31
Investment Bankers	6	0	6
Advisors	0	8	8
Totals	143	781	924

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

Seasonality and Backlog

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

Research and Development and Environmental Matters

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

Properties

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

Leases expire at various times through June 2017. The Company believes the rent at each of its locations is reasonable based on current market rates and conditions. We consider the facilities of our company and those of our subsidiaries to be reasonably insured and adequate for the foreseeable needs of the Company and its subsidiaries.

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

Address	Approximate Square Footage		Approximate Annual Lease Rental	Lease Termination Date
120 Broadway New York, NY	19,872	$	813,268	August 31, 2013
1001 Fourth Ave Seattle, WA	9,739	$	338,436	June 30, 2017
4000 Rt. 66 Tinton Falls, NJ	4,258	$	104,321	November 30, 2015
131 Gaither Drive Mount Laurel, NJ	1,400	$	19,600	Month to Month
1200 N. Federal Highway Boca Raton, FL	17,089	$	542,100	August 21, 2015
3010 North Military Trail Boca Raton, FL	2,634	$	64,460	February 28, 2014
2170 W. St. Rd. 434 Longwood, FL	940	$	13,632	September 30, 2013

Legal Proceedings

The Company and its subsidiaries are defendants in arbitrations and administrative proceedings, lawsuits and claims, which are routine and incidental to our business, alleging specified damages of approximately $17,000,000. The Company estimates, to the extent that it can, that based on discussions with legal counsel and prior experience, its aggregate liability from these pending actions may exceed $480,000 (exclusive of fees, costs and unspecified punitive damages related to certain claims and inclusive of expected insurance coverage). These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and based on discussions with counsel believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time. The amounts related to such matters that are reasonably estimable and which have been accrued at December 31, 2012 and 2011, are $490,000 and $338,000 (inclusive of legal fees and estimated claims), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of approximately $290,000 for the first three months of fiscal year 2013 and approximately $1,158,000 and $1,169,000 for fiscal years 2012 and 2011, respectively.

MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding our current directors and executive officers as of March 19, 2013 :

Name	Age	Positions Held	Class and Year in Which Term Expires
Mark D. Klein (3)	51	Executive Co-Chairman and Chief Executive Officer	Class II, 2015
Robert B. Fagenson	64	Executive Co-Chairman	Class I, 2014
Mark Goldwasser	54	President and Director	Class III, 2013
Leonard J. Sokolow	56	Director	Class III, 2013
Frank S. Plimpton (1)(2)(3)	58	Director	Class II, 2015
Salvatore Giardina (1)(2)	51	Director	Class III, 2013
Peter Zurkow (2)	59	Director	Class I, 2014
William Lerner	73	Director	Class I, 2014
Frederic B. Powers III	47	Director	Class II, 2015
Alan B. Levin	49	Chief Financial Officer	

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating and Corporate Governance Committee

Our officers are appointed by and serve at the discretion of our Board of Directors. There are no family relationships among our executive officers and directors.

Following is a brief description of the business experience and educational background of each of our directors and executive officers, including the capacities in which they served during the past five years.

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

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

Fagenson & Co., Inc., as well as his extensive knowledge of public company governance derived from his many years of service on the board of and as vice chairman of The New York Stock Exchange, qualifies him to serve on our board of directors.

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

Leonard J. Sokolow served as the chairman of the board of directors of vFinance since January 1, 2007, one of its directors since November 8, 1997 and its Chief Executive Officer since November 8, 1999. Following the merger of vFinacne with National in July 2008, Mr. Sokolow joined National as its Vice Chairman and President and become a member of the board of directors as the nominee of vFinance and served as its President until July 2012 and currently serves as Vice Chairman. From January 5, 2001 through December 31, 2006, Mr. Sokolow was President of vFinance. From November 8, 1999 through January 4, 2001, Mr. Sokolow was Vice Chairman of vFinance’s board of directors. Since September 1996, Mr. Sokolow has been President of Union Atlantic LC, a merchant banking and strategic consulting firm specializing domestically and internationally in technology industries that is a wholly owned subsidiary of vFinance. Union Atlantic LC has been inactive since September 16, 2005. Since August 1993, Mr. Sokolow has been President of Genesis Partners, Inc., a private financial business-consulting firm. Genesis Partners, Inc. has been inactive since December 31, 2002. From August 1994 through December 1998, Mr. Sokolow was the Chairman and Chief Executive Officer of the Americas Growth Fund, Inc., a public closed-end management investment company. Mr. Sokolow received his B.A. degree in Economics from the University of Florida in 1977, a J.D. degree from the University of Florida Levin College of Law in 1980 and an L.L.M. degree in Taxation from the New York University Graduate School of Law in 1982. Mr. Sokolow is a Certified Public Accountant. He is also a director of Consolidated Water Co. Ltd. (Nasdaq: CWCO) and Chairman of its audit committee and a member of the nominations committees, positions he has held since May 2006 and October 2009 respectively, and a director of Alberta Oilsands Inc. (TSX-V:AOS) since April 2010. Our board of directors believes that Mr. Sokolow's business, leadership and management experience he gained by serving as President of vFinance and Genisis Partners and as Chief Executive Officer of American Growth Fund, as well as his extensive knowledge of all aspects of our business that he gained in serving as our President, qualifies him to serve on our board of directors.

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

-53-

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

Peter Zurkow has served as a member of our Board since October 2012. He has served as Managing Director and Head of Corporate Finance at Britton Hill Capital since 2011. He is Co-Founder of Gourmetrics, Inc. From 2010 through 2012, Mr. Zurkow served as Acting EVP and Director of Finance and Business Development at Advanced Brain Technologies. From 2007 through 2009, Mr. Zurkow served as Portfolio Manager and Chief Compliance Officer for 12 Meter Management, L.P. / Select 12 Meter Funds. From 2004 through 2007, Mr. Zurkow was a Co-Founder and Managing Member of Fox Hall Investments, LLC. From 2002-2004, Mr. Zurkow was a Managing Director of Investec, Inc. From April 2001 to December 2001, he was a private investor. Prior to joining Investec, from 1992 to April 2001 Mr. Zurkow was a Managing Director in UBS Warburg’s technology investment banking division. He joined UBS in conjunction with its acquisition of Paine Webber Group, where Mr. Zurkow had been a Managing Director in the firm’s investment banking, principal transactions, and fixed income divisions from 1992 to 2000. He was also a Managing Partner of PaineWebber’s alternative asset management arm and a Member of the Investment Committee for the firm’s Employee Pension Fund. Prior to joining PaineWebber, Mr. Zurkow was an Associate Managing Director and a Portfolio Manager in the Risk Arbitrage Department of Wertheim, Schroder. Our board of directors believes that Mr. Zurkow's extensive experience in investing and investment banking qualifies him to serve on our board of directors.

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

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

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

Arrangements for Nominations to the Board

Pursuant to a Voting Agreement dated July 1, 2008, each of Mark Goldwasser, Leonard Sokolow and Christopher C. Dewey (a former director of the Company who resigned in April 2011), agreed to vote their shares of Common Stock in favor of Mark Goldwasser, Leonard Sokolow, Christopher C. Dewey, Jorge A. Ortega (a former director who resigned in March 2012), and up to three directors nominated by Mr. Goldwasser and up to one additional director nominated by Mr. Sokolow, and agreed to take all other necessary or desirable action within his control (including, without limitation, execution of written consents or resolutions in lieu of meetings), from time to time and at all times in whatever manner shall be necessary, to ensure that each is continuously nominated to serve as a director of the Company. The Voting Agreement expires on June 30, 2013.

Mr. Plimpton was elected to the Board of Directors in 2010 pursuant to the terms of a Share Purchase Agreement dated July 21, 2010. Under the terms of the agreement, the Company agreed to take all actions necessary to appoint Mr. Plimpton as a member of the Board of Directors. Furthermore, Mr. Plimpton cannot be removed as a director of the Company by the Board other than as permitted by law.

Corporate Governance

The Company’s business affairs are conducted under the direction of the Board of Directors in accordance with the Delaware General Corporation Law and the Company’s Certificate of Incorporation and Amended and Restated Bylaws. Members of the Board of Directors are informed of the Company’s business through discussions with management, by reviewing materials provided to them and by participating in meetings of the Board of Directors and its committees. Certain corporate governance practices that the Company follows are summarized below.

Board Leadership Structure

The Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The Board understands that there is no single, generally accepted approach to providing Board leadership and the right Board leadership structure may vary as circumstances warrant.

Since July 2012, Mark Klein and Robert Fagenson have each served as Executive Co-Chairman of the Board of the Company and as of January 25, 2013, Mr. Klein has also served as Chief Executive Officer. Messrs. Klein and Fagenson are involved in the Company's day-to-day operations and the strategic decision making at the Board level. Based on its most recent review of the Company's leadership structure, the Board continues to believe that this leadership structure is optimal for the Company because it provides the Company with strong and consistent leadership. The Board believes that having Messrs. Klein and Fagenson serving in these positions provides the Company with decisive and effective leadership.

In considering its leadership structure, the Board has taken a number of factors into account. A number of Board and committee processes and procedures, including regular executive sessions of non-management Directors and a regular review of the Company's and our executive officers' performance, provide substantial independent oversight of the Company's management's performance. The Board has the ability to change its structure, should that be deemed appropriate and in the best interest of the Company and its stockholders.

The Executive Co-Chairmen of the Board preside at all meetings of the stockholders and of the Board as a whole. The Executive Co-chairmen perform such other duties, and exercise such powers, as from time to time shall be prescribed by the Company's Board of Directors.

Risk Oversight

Assessing and managing risk is the responsibility of our management. The Board of Directors oversees and reviews certain aspects of the Company's risk management efforts. The Board of Directors is involved in risk oversight through direct decision-making authority with respect to significant matters and the oversight of management by the Board of Directors and its committees. Among other areas, the Board is directly involved in overseeing risks related to the Company's overall strategy, including product, go-to-market and sales strategy, executive officer succession, business continuity, crisis preparedness and corporate reputational risks.

The committees of the Board execute their oversight responsibility for risk management as follows:

- The Audit Committee has responsibility for overseeing the Company's internal financial and accounting controls, work performed by the Company's independent registered public accounting firm and the Company's internal audit function. As part of its oversight function, the Audit Committee regularly discusses with management and the Company's independent registered public accounting firm the Company's major financial and controls-related risk exposures and steps that management has taken to monitor and control such exposures. In addition, the Company, under the supervision of the Audit Committee, has established procedures available to all employees for the anonymous and confidential submission of complaints relating to any matter to encourage employees to report questionable activities directly to the Company's senior management and the Audit Committee.

- The Compensation Committee is responsible for overseeing risks related to the Company's cash and equity-based compensation programs and practices.

- The Nominating and Corporate Governance Committee is responsible for overseeing risks related to the composition and structure of the Board of Directors and its committees and the Company's to corporate governance practices. In this regard, the Nominating Committee will conduct an annual evaluation of the Board and its committees, plans for Board member succession, executive officer succession plans and reviews transactions between the Company and its officers, directors, affiliates of officers and directors or other related parties for conflicts of interest.

Code of Ethics and Business Conduct

We have adopted the National Holdings Corporation Code of Ethics and Business Conduct (the "Code of Conduct"), a code of conduct that applies to our directors, officers and employees. The Code of Conduct was filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended September 30, 2003, and is publicly available on the SEC's website at www.sec.gov. If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver from a provision of the Code of Conduct to our directors or executive officers, we will disclose the nature of such amendment or waiver in a report on Form 8-K.

Independence

We are currently not listed on any national securities exchange, but in evaluating the independence of our directors, we have applied the independence standards of The Nasdaq Stock Market and those found in the Exchange Act. Under those standards, the Board of Directors has determined that all of the members of the current Board of Directors are independent except Messrs. Goldwasser, Sokolow, Klein and Fagenson.

Meetings and Committees of the Board of Directors and Corporate Governance Matters

During the fiscal year ended September 30, 2012, the Company's Board of Directors met or acted by unanimous written consent a total of 11 times. Each director attended or participated in 75% or more of the aggregate of the total number of meetings of the Board of Directors and committees on which he served during the time he served as a director.

Committees of the Board of Directors

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Director Qualifications. Until December 2012, the Board of Directors did not have a separate nominating committee as the Company believed that having the full Board deliberate the nomination process was in the Company's best interest. In December 2012, the Board of Directors established a Nominating and Corporate Governance Committee, although prior to such date the Company had a Corporate Governance Committee but it did not also act as the Company's nominating committee. In making its nominations, the Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) identifies candidates who meet the current challenges and needs of the Board of Directors. In determining whether it is appropriate to add or remove individuals, the Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) considers issues of judgment, diversity, age, skills, background and experience. In making such decisions, the Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) considers, among other things, an individual's business experience, industry experience, financial background and experiences. The Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) also considers the independence, financial literacy and financial expertise standards required by our Board of Directors committees' charters and applicable laws, rules and regulations, and the ability of the candidate to devote the time and attention necessary to serve as a director and a committee member.

While the Company does not have a formal diversity policy with respect to director nominations, as noted above, it considers diversity, which it defines broadly to include an appropriate combination of business acumen, educational experience, work experience and the other items noted above, as well as traditional diversity concepts such as race, as one of a number of factors it considers to identify qualified nominees for directors.

Identifying and Evaluating Nominees for Director. In the event that vacancies are anticipated or otherwise arise, the Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) considers various potential candidates for director. Candidates may come to the attention of the Board through current directors, professional search firms engaged by us, stockholders or other persons. Candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee (and prior to establishing the Nominating and Corporate Governance Committee, the full Board of Directors) and may be considered at any point during the year.

Stockholder Nominees. Candidates for director recommended by stockholders will be considered by the Nominating and Corporate Governance Committee. Such recommendations should include the candidate’s name, home and business contact information, detailed biographical data, relevant qualifications for membership on our Board of Directors, information regarding any relationships between the candidate and us within the last three years, including stockholdings in us, and a written indication by the recommended candidate of the candidate’s willingness to serve, and should be sent to the Nominating Committee of the Board of Directors.

The Nominating and Corporate Governance Committee and the Board of Directors will evaluate recommendations for director nominees submitted by directors, management or qualifying stockholders in the same manner, using the criteria stated above. All directors and director nominees will submit a completed form of directors’ and officers’ questionnaire as part of the nominating process. The process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Nominating and Corporate Governance Committee.

Audit Committee

The Audit Committee currently consists of Salvatore Giardina and Frank S. Plimpton. During the fiscal year ended September 30, 2012, the Audit Committee consisted of Leonard Sokolow, Frank Plimpton and Robert Lautz.

On January 22, 2003, the Board adopted a charter for the Audit Committee, as amended and restated on January 12, 2004 and January 27, 2009, a copy of which is available on our website, www.NHLDCorp.com. The Audit Committee oversees the Company’s financial reporting process on behalf of the Board of Directors. Management is responsible for the Company’s internal controls, financial reporting process and compliance with laws and regulations and ethical business standards. The independent public accountants are responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee has the power and authority to engage the independent public accountants, reviews the preparations for and the scope of the audit of the Company’s annual financial statements, reviews drafts of the statements and monitors the functioning of the Company’s accounting and internal control systems through discussions with representatives of management and the independent public accountants.

Under SEC rules, companies are required to disclose whether their audit committees have an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K under the Exchange Act. The Board of Directors has determined that Mr. Giardina, and formerly Mr. Sokolow, are financial experts. The Audit Committee meets quarterly and on an as-needed basis. The Committee met four times during the year ended September 30, 2012.

Compensation Committee

The Compensation Committee currently consists of Salvatore Giardina, Frank S. Plimpton and Peter Zurkow. During the fiscal year ended September 30, 2012, the Compensation Committee consisted of Michael Weiss and Jorge Ortega. On January 12, 2004, the Compensation Committee adopted a formal Compensation Committee Charter, as amended and restated on January 27, 2009, which contains a detailed description of the committee's duties and responsibilities, a copy of which is available on our website, www.NHLDCorp.com The Compensation Committee meets annually and on an as-needed basis. The Committee did not meet or act by unanimous written consent during the year ended September 30, 2012.

Nominating and Corporate Governance Committee

In December 2012, the Board of Directors established a Nominating and Corporate Governance Committee. Prior to December 2012, the Company had a Corporate Governance Committee but it did not also act as the Company's nominating committee. The Nominating and Corporate Governance Committee currently consists of Mark D. Klein and Frank Plimpton. During the fiscal year ended September 30, 2012, the Corporate Governance Committee consisted of Paul Coviello, Frank Plimpton and Jorge Ortega. The Nominating and Corporate Committee does not have a charter. The Nominating and Corporate Governance Committee is responsible for finding, evaluating, considering and proposing nominees to stand for election to the Board of Directors. The Nominating and Corporate Governance Committee assists the Board, on at least an annual basis, by identifying individuals qualified to become board members, and recommending to the Board the Director nominees for the next Annual Meeting of Shareholders.

The Nominating and Corporate Governance Committee was created with certain duties and responsibilities, including, among other things, setting the Company's trading policy, monitoring Sarbanes-Oxley matters and resolving Board of Director conflicts. The Corporate Governance Committee meets on an as-needed basis. The Corporate Governance Committee met once during the year ended September 30, 2012.

Compensation Committee Interlocks and Insider Participation

Except as described below under Certain Relationships and Related Transactions, no member of the Company's Board of Directors or Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. None of the Company's executive officers served as a member of the board of directors or compensation committee, or similar committee, of any other company whose executive officer(s) served as a member of the Company's Board of Directors or Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16 of the Exchange Act, the Company's directors and executive officers and beneficial owners of more than 10% of the Common Stock are required to file certain reports, within specified time periods, indicating their holdings of and transactions in the Common Stock. Based solely on the Company's review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during fiscal year 2012 the Company's insiders have complied with all Section 16(a) filing requirements applicable to them except as follows:

-59-

- Marshall S. Geller filed a late Form 4 for a transaction that occurred on December 27, 2011;
- Robert E. Lautz, Jr. filed a late Form 4 for a transaction that occurred on December 27, 2011;
- Each of Mark D. Klein, Robert Fagenson and Bryant R. Riley filed a late Form 3 for a transaction that occurred on March 30, 2012; and
- Each of Leonard Sokolow and Mark Goldwasser filed a late Form 4 for a transaction that occurred September 11, 2012.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the cash compensation paid by the Company to each of Mark Goldwasser, Leonard Sokolow and Alan B. Levin (collectively the "Named Executive Officers") during the fiscal years ended September 30, 2012 and 2011:

Name and Capacity	Year	Salary	Non-equity Incentive Compensation	Equity Compensation	Other Compensation (4)	Total Compensation
Mark Goldwasser	2012	$ 494,310	$ -	$ 17,666	$ 25,670	$ 537,646
Former Chief Executive Officer	2011	$ 480,785	$ -	$ -	$ 24,960	$ 505,745
and Current President (1)						
Leonard Sokolow	2012	$ 390,698	$ -	$ 47,720	$ 20,345	$ 458,763
Vice Chairman and Former President (2)	2011	$ 480,785	$ -	$ -	$ 26,760	$ 507,545
Alan B. Levin	2012	$ 203,474	$ -	$ -	$ 13,324	$ 216,798
Chief Financial Officer	2011	$ 175,123	$ 20,000	$ -	$ 12,420	$ 207,543

(1) On January 25, 2013, Mark Goldwasser resigned as our Chief Executive Officer and was appointed as our President.

(2) On July 25, 2012, Leonard Sokolow resigned as our president.

(3) Represents the fair value of shares issued pursuant to amended employment agreements dated November 2009. No options were granted in 2011 or 2012.

(4) Represents perquisite payments for auto allowance and club memberships and certain insurance premiums as follows:

	Fiscal Year End	
	2012	2011
Mark Goldwasser		
Auto Allowance	$12,000	$12,000
Club membership	346	-
Insurance Pemiums	13,324	12,960
	$25,670	$24,960
Leonard Sokolow	$9,000	$12,000
Auto Allowance	1,350	1,800
Club membership	9,995	12,960
Insurance Pemiums	$20,345	$26,760
Alan Levin		
Auto Allowance	$-	$-
Club membership	-	-
Insurance Pemiums	13,324	12,420
	$13,324	$12,420

Mark Goldwasser Employment Agreement

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

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

To the extent that the Adjusted EBITDA for any fiscal year is between $1,500,000 and $4,500,000, up to 100% of the Accrued Portion may, at the Board's discretion, be satisfied by the issuance of the Company's restricted Common Stock, at its then fair market value. To the extent that the Adjusted EBITDA for such fiscal year exceeds $4,500,000, the Accrued Portion shall be paid in cash.

For the purpose of the bonuses, "Adjusted EBITDA" means the net income of the Company for a particular fiscal quarter before interest, taxes, depreciation and amortization, adjusted to exclude non-cash compensation expense (including the amortization of costs associated with the issuance of stock options) and write down of forgivable loans. At the conclusion of the fiscal year, the Company and the Executive 'true up' the annualized bonus, the Paid Portion and the Accrued Portion, with payment (if any) to be made as soon as practicable following the determination of such 'true up' amount. To the extent that the 'true up' calculation results in a negative amount (i.e., the Paid Portion exceeds the annualized bonus) then (i) the Company will have no right to clawback such amount from the Executive but (ii) such amount will first be deducted from the annualized bonus (if any) to be paid for future periods. All bonuses will be subject to applicable withholding taxes which will be paid by the Company and other similar deductions and any payment of Accrued Portion payable in Common Stock shall accordingly be calculated net of such withholding on the aggregate bonus amount paid.

-61-

Mr. Goldwasser continues to be eligible to such additional bonuses as the Board of Directors of the Company determines based upon the Board's assessment of his performance in the various areas, which bonuses may be paid in cash and/or Common Stock at the Board's discretion.

Mr. Goldwasser's employment agreement terminates upon the earliest to occur of: (i) his death; (ii) a termination by the Company by reason of his disability; (iii) a termination by the Company with or without Cause; (iv) a termination by him with or without Good Reason; (v) upon a Change in Control (as defined in the employment agreement); or (vi) the non-renewal of the agreement. Upon the termination due to the death or disability of Mr. Goldwasser, by the Company without Cause, by Mr. Goldwasser with Good Reason, upon a Change of Control, or upon the expiration of the employment agreement if the Company or Mr. Goldwasser refuse to extend the term of the employment agreement, Mr. Goldwasser will be entitled to: (i) any accrued but unpaid salary or bonus or unreimbursed expenses; (ii) any bonus payable for the portion of the fiscal year during which the termination occurs; (iii) 100% of Mr. Goldwasser's base salary (150% in the event of termination by the Company without Cause or by Mr. Goldwasser with Good Reason); (iv) the continuation of health benefits until the earlier of (a) 18 months after termination and (b) the date Mr. Goldwasser accepts other employment; and (v) all unvested options granted pursuant to the employment agreement will become immediately vested and be exercisable for a period of nine months.

Pursuant to the employment agreement, Mr. Goldwasser was granted non-qualified stock options to purchase 1,000,000 shares of Company's Common Stock at an exercise price of $1.64 per share, which was equal to the average of the 10-day closing market price of the Common Stock prior to the effective date of the employment agreement. As of September 30, 2012 all 1,000,000 shares of Mr. Goldwasser's options have vested. The options expire June 30, 2015.

Leonard Sokolow Consulting Agreement

On July 25, 2012, the Company and Leonard J. Sokolow executed a consulting agreement (the "Consulting Agreement") which replaced the previous employment agreement between the Company and Mr. Sokolow which was entered into concurrent with the closing of the merger of the Company and vfinance, Inc., and which was subsequently amended on November 23, 2009. The terms of Mr. Sokolow's employment agreement were substantially identical to the terms set forth in Mr. Goldwasser's employment agreement which is described above under "-Mark Goldwasser Employment Agreement" except that Mr. Sokolow served as our President and Vice Chairman of the Board of Directors. Under the Consulting Agreement, Mr. Sokolow will provide to the Company and its affiliates professional consulting services in the area of general corporate, financial reporting, business development, advisory, operational, strategic, public company and broker-dealer matters as needed and requested. During the term of Consulting Agreement, Mr. Sokolow will be paid $300,000 per annum. Mr. Sokolow has agreed to remain non-executive Vice Chairman of the Company's Board of Directors.

Grants of Plan-Based Awards

The Company did not grant any stock options or non-equity incentive compensation in the fiscal year ended September 30, 2012 to the Named Executive Officers.

No options were exercised by the Named Executive Officers in the fiscal year ended September 30, 2012.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding option awards as of September 30, 2012 for Mark Goldwasser. As of September 30, 2012, there were no outstanding option awards for Leonard Sokolow and Alan Levin.

Name	Options Grant Date (1)	Number of Securities Underlying Unexercised Options at Fiscal Year End		Option Exercise Price	Option Expiration Date
		Exercisable	Unexercisable		
Mark Goldwasser	7/1/2008	1,000,000	-	$ 1.64	6/30/2015

(1) These options were issued in connection with the merger with vFinance, Inc.

Director's Compensation

Each outside director is paid a director's fee of $15,000 per annum, payable quarterly. Outside directors are also granted options to purchase 10,000 shares of Common Stock each year of their tenure on the day after the date of the Company's Annual Meeting of Stockholders, which fully vest six (6) months after the date of issuance. Outside directors may also be granted options to purchase shares of Common Stock based on their service to the Company, which fully vest six (6) months after the date of issuance. The exercise price of such options equal or exceed fair market value of the Common Stock on the date of grant. The Company reimburses all directors for expenses incurred traveling to and from Board of Directors meetings. The Company does not pay inside directors any compensation for their service as director. The compensation for directors was approved by the disinterested members of the Board of Directors.

The following table summarizes the compensation of our outside directors for fiscal year 2012:

Name	Fees Paid	Options Awards	Total Compensation
Michael Weiss (1)	$ 4,303	$ -	$ 4,303
Robert Lautz (2)	$ 15,000	$ -	$ 15,000
Marshall Geller (3)	$ 205	$ -	$ 205
Jorge Ortega (4)	$ 3,688	$ -	$ 3,688
Frank Plimpton	$ 15,000	$ -	$ 15,000

(1) Mr. Weiss resigned from the Board of Directors on April 14, 2012.

(2) Mr. Lautz resigned from the Board of Directors on February 13, 2013

(3) Mr. Geller resigned from the Board of Directors on January 5, 2012.

(4) Mr. Ortega resigned from the Board of Directors on March 30, 2012

Equity Compensation Plan Information

The following table sets forth information as of September 30, 2012 with respect to compensation plans under which equity securities of the Company are authorized for issuance:

Plan Category	Number of securities to be issued opon exercise of outstanding options, warrants and rights (a)	Weighted-average price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	1,312,002 (1)	$1.64	5,137,998 (2)

(1) Includes options issued and outstanding under the 2006 and 2008 Stock Option Plans.

(2) Includes options available for issuance under the 2006 and 2008 Stock Option Plans.

Employment Agreements

Messrs. Goldwasser and Sokolow entered into employment agreements with the Company dated July 1, 2008, as amended on November 23, 2009. On July 25, 2012, Mr. Sokolow and the Company entered into a Consulting Agreement which replaced Mr. Sokolow's employment agreement. See “Compensation of the Chief Executive Officer and President”.

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

Pension Benefits

Other than our 401(k) plan, we do not maintain any plan that provides for payments or other benefits at, following, or in connection with retirement.

Non-Qualified Deferred Compensation

We do not maintain any deferred compensation plans.

Potential Termination and Change in Control Payments

Mark Goldwasser and Alan Levin are the only Named Executive Officers who have employment agreements with us that provides for potential payments in the event of their termination.

Pursuant to the employment agreements governing the employment of the aforementioned with us, they would be entitled to compensation upon termination of their agreement by us without Cause, by the individuals for “Good Reason,” or as a result of non-renewal of the agreement by either party, or as a result of his disability or his death, or upon a change of control. According to the employment agreements:

“Good Reason” means: (i) the assignment to the executive of any duties inconsistent in any material respect with the executive’s position; (ii) the Company’s material failure or refusal to perform any of the compensation obligations required to be performed in accordance with the agreement after a reasonable notice and an opportunity to cure same; (iii) a material diminution in title, duties, responsibilities, reporting relationship or positions; (iv) the relocation of the executive’s principal office location; (v) any decrease in salary or bonuses payable pursuant to the terms of the agreement without the executive’s written consent; (vi) in the case of Mr. Levin, the cessation of his position for any reason without his written consent; and (vii) in the case of Mr. Goldwasser, excludes the hiring of a new chief executive officer and/or the appointment of Messrs. Fagenson and Klein as Co-Chairmen of the Board of Directors. Any one of these events shall not be deemed to constitute Good Reason if, within a 30-day notice period, the event or circumstance giving rise to Good Reason has been fully corrected by the Company.

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

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

“Accrued Obligations” shall mean (i) all accrued but unpaid salary, compensation or other benefits through the date of termination; (ii) any unpaid or unreimbursed expenses incurred in accordance with the agreement; (iii) all benefits due under the terms and rules of any Company compensation or benefit plan in which the executive participates, including without limitation, any Company option plans, or otherwise required by applicable law; (iv) any unpaid bonus in respect to any completed fiscal year that has ended on or prior to the end of the term of employment; and (v) rights to indemnification by virtue of the executive’s position as an officer or director of the Company or its subsidiaries and the benefits under any directors’ and officers’ liability insurance policy maintained by the Company, in accordance with its terms thereof.

Mark Goldwasser, Former Chief Executive Officer and Current President

If Mr. Goldwasser is terminated by us without Cause or by Mr. Goldwasser for Good Reason, he would be entitled to receive (i) a severance payment equal to 150% of Mr. Goldwasser’s prior year’s salary; (ii) all accrued bonuses; (iii) all Accrued Obligations; and (iv) continued benefits for a period of 18 months including medical, hospitalization, dental and life insurance programs in which Mr. Goldwasser, his spouse and dependents were participating immediately prior thereto.

Assuming if Mr. Goldwasser is terminated as a result of a Change in Control, the Company not renewing the agreement upon its expiration either without Cause or Mr. Goldwasser not renewing the agreement due to Good Reason, or upon Mr. Goldwasser’s death or disability, he would be entitled to receive (i) a severance payment equal to 100% of Mr. Goldwasser’s prior year’s salary; (ii) all accrued bonuses; (iii) all Accrued Obligations; and (iv) continued benefits for a period of 18 months including medical, hospitalization, dental and life insurance programs in which Mr. Goldwasser, his spouse and dependents were participating immediately prior thereto. In the event of Mr. Goldwasser’s termination due to Cause or without Good Reason, Mr. Goldwasser would be entitled only to all Accrued Obligations.

Mr. Goldwasser’s option agreements contain clauses that provide that in the event of a Change in Control of the Company, the non-renewal of the employment agreement as set forth above, the termination of employment for Good Reason or without Cause or upon the death or disability of Mr. Goldwasser, all outstanding stock options become fully vested in the holder.

Alan Levin, Chief Financial Officer

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review, approval, or notification of transactions with related persons

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

- the related person’s interest in the transaction;
- the approximate dollar value of the amount involved;
- the terms of the transaction;
- the benefits to the Company;
- the costs to the Company;
- the benefits to the Company’s stockholders;
- the availability of other sources for comparable products, services, or financial benefits; and
- whether the transaction is on terms that are no less favorable to the Company than terms that could have been reached with an unaffiliated third-party under the same or similar circumstances.

Certain Relationships and Related Transactions

Messrs. Geller and Coviello (former directors of the Company who resigned in January 2012), Plimpton, Goldwasser, Sokolow and Levin have brokerage accounts and margin agreements with either National Securities or vFinance Investments. Mr. Levin has a margin agreement with vFinance Investments but has not maintained a margin balance. The transactions, borrowings and interest charges in these accounts, if any, are handled in the ordinary course of business and are consistent with similar third party customer accounts.

On March 31, 2008 and June 30, 2008, the Company entered into two loans in the aggregate principal amount of $6 million with St. Cloud Capital, LLC (“St. Cloud”) as lender. Through holdings in St. Cloud, Kacy R. Rozelle and Robert W. Lautz, Jr., former members of the Company’s board of directors, are parties to the loans. As of September 30, 2012, the Company had paid $2,468,000 in cumulative interest on the loans since inception at a rate of 10% and satisfied its obligations under the loans by paying the principal of $6 million during fiscal 2012 . Mr. Rozelle and Mr. Lautz each held less than 25% stakes in the indebtedness, respectively.

On January 18, 2011, the Company formed a joint venture called OPN Holdings, LLC (“OPN” or the “Joint Venture”) with Opus Point Partners, LLC (“Opus”) by entering into (i) a joint venture limited liability company operating agreement (the “JV Agreement”), by and between the Company and Opus and (ii) an interim funding and services agreement by and between the Company, National Securities Corporation and OPN (the “Interim Funding Agreement,” and together with the JV Agreement, the “OPN JV Agreements”). By their terms, the OPN JV Agreements were effective as of January 14, 2011.

The Joint Venture is the holding company for an investment banking business focused on global life sciences. The Joint Venture, which includes corporate finance, advisory, capital markets and sales, will initially operate through a segregated business unit of the Company’s FINRA-registered wholly-owned subsidiary National Securities Corporation (“NSC”). The Interim Funding Agreement covers this initial period and requires OPN to advance operating and payroll expenses to NSC, and will be effective until OPN has formed and registered its own broker-dealer pursuant to FINRA regulations.

Initial capital contributions to OPN included approximately $1.0 million in cash. Profits and losses of OPN are to be allocated among the Company and Opus in proportion to their percentage interests in the Joint Venture, which currently stand at fifty (50) percent each.

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

On July 25, 2012, the Company and Leonard J. Sokolow executed a consulting agreement (the "Consulting Agreement"), which replaced the previous employment agreement between the Company and Mr. Sokolow which was entered into concurrent with the closing of the merger of the Company and vFinance, Inc., and which was subsequently amended on November 23, 2009. Under the Consulting Agreement, Mr. Sokolow will provide to the Company and its affiliates professional consulting services in the area of general corporate, financial reporting, business development, advisory, operational, strategic, public company and broker-dealer matters as needed and requested. During the term of Consulting Agreement Mr. Sokolow will be paid $300,000 per annum.

On January 25, 2013, Messrs. Klein, Fagenson, Goldwasser and Levin purchased shares of our Common Stock in the private placement at purchase price of $0.30 per share for an aggregate consideration of $377,500. Mr. Klein purchased 1,000,000 shares, Mr. Fagenson purchased 166,666 shares, Mr. Goldwasser purchased 66,666 shares and Mr. Levin purchased 25,000 shares. Additionally, we issued shares of our Common Stock in exchange for warrants as follows: Messrs. Klein and Sokolow each received 101,214 shares in exchange for 215,741 warrants and Mr. Plimpton received 506,080 shares in exchange for 1,078,730 warrants.

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

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information, as of March 19, 2013 , concerning the beneficial ownership of our common stock by:

- each person we know to be the beneficial owner of more than 5% of our common stock;
- each of our current directors;
- each of our named executive officers;
- all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, except as indicated by footnote the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Shares of common stock underlying derivative securities, if any, that currently are exercisable or convertible or are scheduled to become exercisable or convertible for or into shares of common stock within 60 days after the date of the table are deemed to be outstanding in calculating the percentage ownership of each listed person or group but are not deemed to be outstanding as to any other person or group. The address of named beneficial owners that are officers and/or directors is: c/o National Holdings Corporation, 120 Broadway, 27th Floor, New York, New York 10271.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percentage of Class	
Mark Klein (1)	18,087,567	20.5	%
Robert Fagenson (2)	16,863,806	19.1	%
National Securities Growth Partners, LLC (3)	16,697,140	18.9	%
COR Capital, LLC (4)	4,673,326	5.2	%
Mark Goldwasser (5)	2,445,685	2.7	%
Frederic B. Powers III (6)	1,666,667	1.9	%
Leonard Sokolow	1,476,956	1.7	%
Frank Plimpton	1,511,285	1.7	%
Alan Levin	40,500	*	
Salvatore Giardina	-	-	
Peter Zurkow	-	-	
William Lerner	-	-	
All executive officers and directors as a group (11 Persons)	25,503,597	28.8	%

* Less than 1%

(1) Consists of (i) 307,094 shares of Common Stock held directly by Mr. Klein, (ii) 1,083,333 shares of Common Stock held by M Klein & Company, of which Mr. Klein is the managing member and a majority partner and has sole voting and investment power over such shares, (iii) 16,697,140 shares of Common Stock held by National Securities Growth Partners, LLC (NSGP"), of which Mr. Klein is an officer and indirect owner of one of its members and Mr. Klein and Robert Fagenson have shared voting and investment power

over such shares. Mr. Klein disclaims beneficial ownership of the shares of Common Stock owned by NSGP.

(2) Consists of (i) 166,666 shares Common Stock held the Trust for the benefit of Toby Fagenson, of which Mr, Fagenson is the sole Trustee and has sole voting and investment power over such shares, (ii) 16,697,140 shares of Common Stock held by NSGP, of which Mr. Fagenson is the President and of one its members and Mr. Fagenson and Mark Klein have shared voting and investment power over such shares. Mr. Fagenson disclaims beneficial ownership of the shares of Common Stock owned by NSGP.

(3) Mark Klein, the Company's Co-Executive Chairman and Chief Executive Officer, is an officer and the indirect owner of one of the members of NSGP. Robert Fagenson, the Company's Co-Executive Chairman, is the President of one of the members of NSGP. Bryant R. Riley is the trustee of one of the Members of NSGP and the Chairman of one of the members of NSGP. Messrs. Klein, Fagenson and Riley may be deemed to beneficially own all of the shares of Common Stock owned by NSGP. The principal business address of NSGP is 60 Broad Street, New York, New York 10004. Each of Messrs. Klein, Fagenson and Riley disclaims beneficial ownership of the shares of Common Stock owned by NSGP. The principal business address of NSGP is 60 Broad Street, New York, NY 10004.

(4) Information is based on Amendment No. 2 to Schedule 13D filed by COR Capital LLC on January 18, 2012 with the SEC. Consists of (a) 2,620,321 shares of Common Stock and (b) 2.053,005 shares of Common Stock issuable upon exercise of warrants COR Securities Holdings Inc. ("COR Securities") has the power to direct the vote 4,659,718 shares of Common Stock. In COR Capital LLC's ("COR Capital") capacity as a 34.6% owner of COR Securities, and as the beneficiary of a management agreement with COR Securities conferring certain governance rights on COR Capital, COR Capital may be deemed to beneficially own 4,659,718 shares of Common Stock deemed beneficially owned by COR Securities. As the general partner of OR Equity Income Fund LP (“COR Equity”), COR Capital may be deemed to beneficially own 13,608 shares of Common Stock deemed beneficially owned by COR Equity. As the managing member of COR Capital, Steven Sugarman may be deemed to beneficially own the 4,659,718 shares of Common Stock deemed beneficially owned by COR Securities and the 13,608 shares of Common Stock deemed beneficially owned by COR Equity. Consists of The principal business address of COR Capital is 233 Wilshire Boulevard, Suite 830, Santa Monica, CA, 90401.

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

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

SELLING STOCKHOLDERS

This prospectus covers the resale by the selling stockholders of up to an aggregate of 29,451,596 shares of common stock. We are registering the shares of common stock in order to permit the selling stockholders to offer the shares for resale from time to time. The selling stockholders have not had any material relationship with us within the past three years except as disclosed under the heading “Our Relationships with the Selling Stockholders" below.

The table below lists the selling stockholders and other information regarding the beneficial ownership of the shares of common stock held by each of the selling stockholders. The second column lists the number of shares of common stock beneficially owned by the selling stockholders as of March 19, 2013 . The third column lists the shares of common stock being offered by this prospectus by the selling stockholders. The fourth column assumes the sale of all of the shares offered by the selling stockholders under this prospectus.