NATIONAL HOLDINGS CORP
Form 10-Q
February 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended December 31, 2009 Commission File Number 001-12629

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

As of February 12, 2010 there were 17,151,704 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION

FORM 10-Q

QUARTERLY PERIOD ENDED DECEMBER 31, 2009

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PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

FORWARD-LOOKING STATEMENTS

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

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

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

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS	December 31, 2009 (unaudited)	September 30, 2009 (see note below)
Current Assets		
Cash	$ 5,071,000	$ 6,493,000
Deposit with clearing organizations	1,211,000	1,212,000
Receivables from broker dealers and clearing organizations	2,667,000	4,910,000
Other receivables, net of allowance for uncollectible accounts of $402,000 and $630,000 at September 30, 2009 and 2008, respectively	427,000	332,000
Advances to registered representatives - Current portion	1,683,000	1,784,000
Securities owned: marketable – at market value	373,000	631,000
Securities owned:nonmarketable – at fair value	78,000	60,000
Total Current Assets	11,510,000	15,422,000
Advances to registered representatives - Long term portion	883,000	1,096,000
Fixed assets, net	1,123,000	1,163,000
Secured demand note	500,000	500,000
Intangible assets, net	2,174,000	2,329,000
Other assets	1,260,000	1,132,000
Total Assets	$ 17,450,000	$ 21,642,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Laibilities		
Payable to broker dealers and clearing organizations	$ 241,000	$ 299,000
Securities sold, but not yet purchased, at market	77,000	4,000
Accounts payable, accrued expenses and other liabilities - Current portion	10,414,000	14,162,000
Notes payable, net of debt discounts of $0 at December 31, 2009 and September 30, 2009 repectively	500,000	500,000
Total Current Liabilities	11,232,000	14,965,000
Accrued expenses and other liabilities - Long term portion	467,000	719,000
Convertible notes payable, net of debt discount of $938,000 and $1,036,000 December 31, 2009 and September 30, 2009 repectively	5,062,000	4,964,000
Total Liabilities	16,761,000	20,648,000

Subordinated borrowings		850,000		850,000
Stockholders' Equity				
Preferred stock, $.01 par value, 200,000 shares authorized; 50,000 shares designated as Series A and 20,000 shares designated as Series B		-		-
Series A 9% cumulative convertible preferred stock, $.01 par value, 50,000 shares authorized; 42,957 shares issued and outstanding (liquidation preference: $4,295,700) at December 31, 2009 and 37,550 shares issued and outstanding (liquidation preference: $3,755,000) at September 30, 2009		-		-
Series B 10% cumulative convertible preferred stock, $.01 par value, 20,000 shares authorized; 0 shares issued and outstanding (liquidation preference: $0 at December 31, 2009 and September 30, 2009, respectively		-		-
Common stock, $.02 par value, 50,000,000 shares authorized; 17,151,704 and 16,422,538 shares issued and outstanding, at December 31, 2009 and September 30, 2009, respectively		343,000		343,000
Additional paid-in capital		41,377,000		41,195,000
Accumulated deficit		(41,881,000)		(41,394,000)
Total Stockholders' Equity		(161,000)		144,000
Total Liabilities and Stockholders' Equity	$	17,450,000	$	21,642,000

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

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended December 31, 2009	2008
Revenues:		
Commissions	$ 17,987,000	$ 15,410,000
Net dealer inventory gains	3,954,000	7,092,000
Investment banking	1,653,000	667,000
Total commission and fee revenues	23,594,000	23,169,000
Interest and dividends	500,000	697,000
Transfer fees and clearing services	2,906,000	2,750,000
Other	1,388,000	1,236,000
Total Revenues	28,388,000	27,852,000
Expenses:		
Commissions and fees	21,387,000	21,067,000
Employee compensation and related expenses	3,084,000	3,074,000
Clearing fees	449,000	1,193,000
Communications	1,020,000	862,000
Occupancy and equipment costs	1,296,000	1,381,000
Professional fees	505,000	763,000
Interest	294,000	325,000
Taxes, licenses, registration	350,000	259,000
Other administrative expenses	491,000	70,000
Total Expenses	28,876,000	28,994,000
Net loss	(488,000)	(1,142,000)
Preferred stock dividends	(97,000)	(85,000)
Net loss attributable to common stockholders	$ (585,000)	$ (1,227,000)
Net loss per common share		
Basic:		
Net loss attributable to common stockholders	$ (0.03)	$ (0.07)
Diluted:		
Net loss attributable to common stockholders	$ (0.03)	$ (0.07)
Weighted average number of shares outstanding		
Basic	17,151,704	16,421,538
Diluted	17,151,704	16,421,538

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended December 31, 2009	2008
Cash flows from operating activities		
Net loss	$ (488,000)	$ (1,142,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	329,000	324,000
Amortization of deferred financing costs	11,000	14,000
Amortization of note discount	87,000	123,000
Amortization of foregivable notes to brokers	286,000	402,000
Compensatory element of common stock options issuance	182,000	237,000
Changes in assets and liabilities		
Deposits with clearing organizations	1,000	(51,000)
Receivables from broker-dealers, clearing organizations and others	2,243,000	585,000
Other receivables	(95,000)	-
Advances to registered representatives	28,000	-
Securities owned: marketable, at market value	258,000	(1,075,000)
Securities owned: non-marketable, at fair value	(18,000)	7,000
Other assets	(127,000)	(15,000)
Payables	(4,000,000)	723,000
Payables to broker dealers and clearing organizations	(58,000)	-
Securities sold, but not yet purchased, at market	73,000	-
Net cash provided by (used in) operating activities	(1,288,000)	132,000
Cash flows from investing activities		
Purchase of fixed assets	(134,000)	(167,000)
Net cash (used in) investing activities	(134,000)	(167,000)
Net decrease in cash	(1,422,000)	(35,000)
Cash balance		
Beginning of the period	6,493,000	7,387,000
End of the period	$ 5,071,000	$ 7,352,000
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 199,000	$ 188,000
Income taxes	$ 42,000	$ -

See accompanying notes to unaudited condensed consolidated financial statements

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NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of National Holdings Corporation (“National” or the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements as of December 31, 2009 and for the periods ended December 31, 2009 and December 31, 2008 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related footnotes included thereto in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

NOTE 2. CONSOLIDATION

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

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

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

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NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Estimates

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

Revenue Recognition

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

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

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

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

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

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

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Cash and Cash Equivalents

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

Fixed Assets

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

Income Taxes

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

Fair Value of Financial Instruments

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

Impairment of Long-Lived Assets

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

Common Stock Purchase Warrants

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

The Company assessed the classification of its derivative financial instruments as of December 31, 2009, which consist of common stock purchase warrants, and determined that such derivatives are accounted for in accordance with professional standards.

Convertible Instruments

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

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

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

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

Net Income (Loss) per Common Share

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

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008
Numerator:		
Net loss	$ (488,000)	$ (1,142,000)
Preferred stock dividends	(97,000)	-85,000
Numerator for basic earnings per share-net income (loss) attributable to common stockholders - as reported	(585,000)	(1,227,000)
Effect of dilutive securities:		
Series A preferred stock	-	-
Numerator for diluted earnings per share-net income (loss) attributable to common stockholders - as adjusted	$ (585,000)	$ (1,227,000)
Denominator:		
Denominator for basic earnings per share--weighted average shares	17,151,705	16,421,538
Effect of dilutive securities:		
Assumed conversion of Series A preferred stock	-	-
Stock options	-	-
Warrants	-	-
Dilutive potential common shares	-	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	17,151,705	16,421,538
Net loss available to common stockholders		
Basic and diluted	$ (0.03)	$ (0.07)

For the three-month period ended December 31, 2009, 11,913,894 common share equivalents were excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive. For the three-month period ended December 31, 2008, 11,624,428 common share equivalents were excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive.

The following table sets forth the common share equivalents that were excluded from the calculation:

	Three Months Ended	
	December 31, 2009	December 31, 2008
Stock options	3,376,084	3,266,054
Warrants	1,726,250	1,979,374
Assumed conversion of:		
Series A Preferred Stock	3,436,560	3,004,000
Notes	3,375,000	3,375,000
Dilutive potential common shares	11,913,894	11,624,428

Stock-Based Compensation

Effective October 1, 2005, the Company adopted ASC Topic 718 accounting for “Share Based Payment.” This topic addresses all forms of share based payment (“SBP”) awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under Topic 718, SBP awards will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period. During the three months ended December 31, 2009 , the Company granted 300,000 stock options that vest over periods from two to four years, have a 5-year life and are exercisable at $0.69 per share. A charge of approximately $107,000 and $237,000 was recorded in the three months ended December 31, 2009 and 2008, respectively, relating to the amortization of the fair value associated with all remaining stock option grants and restricted stock grants.

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

A summary of the stock option activity as of December 31, 2009, and changes during the three month period then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2009	5,912,165	$ 1.55	3.21	$ 2,500
Granted	300,000	0.69	4.75	-
Expired	156,775	0.62	2.05	-
Outstanding at December 31, 2009	6,055,390	$ 1.51	3.10	$ -
Exerciseable at December 31, 2009	4,103,084	$ 2.23	4.58	$ 2,000

As of December 31, 2009, there was approximately $738,000 of total unrecognized deferred compensation costs related to share-based compensation arrangements. The Company has experienced a historic forfeiture rate of approximately 38% on previously granted stock options and expects that future forfeitures will be consistent with this experience.

A summary of the status of the Company's nonvested shares as of December 31, 2009, and changes during the three month period then ended is presented below:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2009	1,916,741	$ 0.61
Granted	300,000	$ 0.47
Vested	238,385	$ 0.90
Expired	26,050	$ 0.59
Nonvested at December 31, 2009	1,952,306	$ 1.53

Concentrations of Credit Risk

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

The Company maintains cash with major financial institutions. All interest bearing accounts are insured up to $250,000. On October 14, 2008 the FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until June 30, 2010. As a result of this coverage the Company believes it is not exposed to any significant credit risks for cash.

Other Receivables

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

Advances to Registered Representatives

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

Securities Owned

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

Other Assets

Other assets consist primarily of prepaid expenses and lease deposits.

Legal and Other Contingencies

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

Recent Accounting Pronouncements

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

The new professional standard issued in May 2009 accounting for “Subsequent Events” is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the issuance of financial statements. Specifically, the standard sets forth: 1) the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances that an entity should recognize events or transactions that occur after the balance sheet date, and 3) the disclosures that an entity should make about events or transactions that occur after the balance sheet date.

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

NOTE 4. CLEARING AGREEMENTS

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

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

At December 31, 2009 and September 30, 2009, the receivables of $2,667,000 and $4,910,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions. At December 31, 2009 and September 30, 2009, the amounts payable to broker-dealers and clearing organizations of $241,000 and $299,000, respectively, represent amounts owed to clearing firms or other broker dealers for fees on transactions and payables to other broker dealers associated with tri-party clearing agreements.

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

The following table shows the quoted market values of securities owned by the Company, and securities sold but not yet purchased by the Company, as of December 31, 2009:

	Securities owned	Securities sold, but not yet purchased
Corporate stocks	$ 117,000	$ 77,000
Corporate bonds	8,000	--
Government obligations	248,000	--
Non-marketable securities	78,000	--
	$ 451,000	$ 77,000

Fair Value Measurements

Securities owned at Fair Value as of December 31, 2009

Securities owned at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$117,000	$-	$-	$117,000
Corporate bonds	8,000	-	-	8,000
Government obligations	248,000	-	-	248,000
Non-marketable securities	-	78,000	-	78,000
	$373,000	$78,000	$-	$451,000

Securities sold, but not yet purchased at Fair Value as of December 31, 2009

Securities sold, but not yet purchased at fair value	Level 1	Level 2	Level 3	Total
Corporate stocks	$77,000	$-	$-	$77,000
Corporate bonds	-	-	-	-
Government obligations	-	-	-	-
	$77,000	$-	$-	$77,000

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NOTE 7. INTANGIBLE ASSETS

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

- Lehman Brothers filed for bankruptcy protection;
- American International Group receives a loan of $85 billion from a the Federal Reserve;
- Washington Mutual’s banking assets were sold to JP Morgan;
- The Emergency Economic Stabilization Act which created a $700 billion Troubled Assets Relief Program was signed into law (“TARP”);
- Central banks from large industrialized countries coordinate their efforts to aid the world economy;
- The TARP has been used for different purposes than originally intended to accommodate shifting currents in the US economy
- The Federal Reserve Bank has set two new precedents by first, lowering the Federal Funds Rate to its lowest level ever of between 0% and .25% and second, modifying the structure of this instrument to one of a variable nature.
- The major US stock indexes have declined between 25.1% and 43.1% since July 1, 2008.

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

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

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

Based on this method, the Company determined that the adjusted carrying basis of its intangible assets resulting from its merger with vFinance amounts to $2,950,000 at September 30, 2008. The difference between the adjusted carrying basis and its unamortized carrying basis amounts to $12,999,000 and has been recorded as an operating expense of the Company in the accompanying financial statements. The remaining intangible asset will be amortized over the balance of the assets original life for 4.75 years. Amortization of the Company's intangible asset for the first quarter ending December 31, 2009 and 2008 was $155,000 and $155,000, respectively.

NOTE 8. OTHER ASSETS

Other assets as of December 31, 2009 and September 30, 2009, respectively, consist of the following:

	December 31, 2009	September 30, 2009
Pre-paid expenses	$ 802,000	$ 659,000
Deposits	179,000	184,000
Investments in unaffiliated entity	162,000	162,000
Deferred financing costs	104,000	114,000
Other	13,000	13,000
Total	$ 1,260,000	$ 1,132,000

NOTE 9. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

The short term portion of accounts payable, accrued expenses and other liabilities as of December 31, 2009 and September 30, 2009, respectively, consist of the following:

	December 31, 2009	September 30, 2009
Commissions payable	$ 4,973,000	$ 7,745,000
Deferred clearing fee credits	94,000	94,000
Telecommunications vendors payable	80,000	82,000
Legal payable	543,000	663,000
Deferred rent payable	33,000	33,000
Accrued compensation	819,000	757,000
Capital lease liability	603,000	703,000
Other vendors	3,269,000	4,085,000
Total	$ 10,414,000	$ 14,162,000

NOTE 10. CONVERTIBLE NOTES PAYABLE

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

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

The following table summarizes convertible notes payable at December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
10% convertible notes payable	$ 6,000,000	$ 6,000,000
Less: Debt discount	(938,000)	(1,036,000)
	$ 5,062,000	$ 4,964,000

The Company incurred interest expense related to its convertible notes of approximately $152,000 and $164,000 for the three months ended December 31, 2009 and 2008, respectively.

NOTE 11. NOTES PAYABLE – RELATED PARTY

In February 2007, the Company completed a financing transaction under which certain investors purchased 10% promissory notes in the principal amount of $1.0 million, with warrants to purchase an aggregate of 250,000 shares of common stock at an exercise price of $1.40 per share. The promissory notes matured in February 2009, and had a stated interest rate of 10% per annum. The Company obtained forbearance agreements from the lenders and as a result, re-priced some of the warrants down to an exercise price of $0.75 per share. The Company recalculated the fair value of the warrants and took an incremental charge of approximately $46,000 recorded as interest expense, in accordance with professional standards.

During 2009 the Company repaid $500,000 of the notes payable and the other $500,000 has been extended to a new maturity of May 2010 at a reduced interest rate of 7%. The Company has fully amortized the debt discount associated with these notes and an expense of $41,000 was charged to interest expense in 2009. Such amortization had been included in “Interest” in previous years, in the accompanying consolidated financial statements.

The following table summarizes notes payable at December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
7% promissory notes payable	$ 500,000	$ 500,000
Less: Debt discount	-	-
	$ 500,000	$ 500,000

The note outstanding on September 30, 2009 matures in fiscal year 2010. This indebtedness is owned by Christopher Dewey, who serves as a member of our Board of Directors. The Company incurred interest expense related to its note of approximately $9,000 and $13,000 for the three months ended December 31, 2009 and 2008, respectively.

NOTE 12. SECURED DEMAND NOTE / SUBORDINATED BORROWINGS

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

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

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

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

NOTE 13. COMMITMENTS AND CONTINGENCIES

During the quarter ended December 31, 2009, there were no significant developments in the Company's legal proceedings. For a detailed discussion of the Company's legal proceedings, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

The Company's subsidiaries are defendants in various arbitrations and administrative proceedings, lawsuits and claims together alleging damages of approximately $12,531,000. The Company believes most of such claims are substantially without merit and estimates, to the extent that it can, that its aggregate liability from these pending actions is less than $750,000 (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 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, 2009 and 2008, is $265,000 and $228,000 (primarily legal fees), respectively, and have been included in "Accounts Payable, Accrued Expenses and Other Liabilities" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of $187,000 and $41,000 for the first quarter of fiscal year 2010 and 2009, respectively.

NOTE 14. DIVIDENDS ON CONVERTIBLE PREFERRED STOCK

The holders of the Company's Series A convertible preferred stock, that are convertible into the Company's common stock at $1.25 per share, are entitled to receive dividends on a quarterly basis at a rate of 9% per annum, per share. Such dividends are cumulative and accumulate whether or not declared by the Company's Board of Directors, but are payable only when and if declared by the Company's Board of Directors. In the quarter ended December 31, 2009, the Company recognizes approximately $97,000 of dividends on its Series A preferred stock, and at December 31, 2009, the total amount of accumulated dividends on the Company's 42,957 issued and outstanding shares of Series A preferred stock was approximately $291,000.

NOTE 15. NET CAPITAL REQUIREMENTS

National Securities, as a registered broker-dealer, is subject to the SEC's Uniform Net Capital Rule 15c3-1 that requires the maintenance of minimum net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At December 31, 2009, National Securities had net capital of approximately $343,000 which exceeded its requirement by approximately $93,000

In addition to the net capital requirements, each of vFinance Investments and EquityStation are required to maintain a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2009, vFinance Investments had net capital of approximately $1,233,000 which was approximately $233,000 in excess of its required net capital of $1,000,000 and its percentage of aggregate indebtedness to net capital was 393%. At December 31, 2009, EquityStation had net capital of approximately $190,000 which was approximately $90,000 in excess of its required net capital of $100,000 and its percentage of aggregate indebtedness to net capital was 276%. Each of the Broker Dealer subsidiaries qualifies under the exemptive provisions of Rule 15c3-3 under Section (k)(2)(ii) of the Rule, as none of them carry the accounts of their customers on their books nor perform custodial functions related to customer securities.

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

NOTE 16: SUBSEQUENT EVENTS

On February 1, 2010, National Securities Corporation and vFinance Investments, Inc. entered into separate but coterminous clearing agreements with National Financial Services, LLC. NFS remains our primary clearing firm, and as a result of these agreements, National Securities Corporation's existing agreement, which was not due to expire until April 2013, has been terminated and is replaced by this new agreement with a termination date of February 1, 2015. vFinance Investments, Inc. clearing agreement ended on March 14, 2009, but the Company has been operating under that agreement while negotiating this new agreement. The Company expects these new agreements to have a favorable effect on its clearing costs.

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

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Quarterly Report may contain certain statements of a forward-looking nature relating to future events or future business performance. Any such statements that refer to the Company's estimated or anticipated future results or other non-historical facts are forward-looking and reflect the Company's current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, risks and uncertainties detailed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 29, 2009. Any forward-looking statements contained in or incorporated into this Quarterly Report speak only as of the date of this Quarterly Report. The Company undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2009 Compared to Three Months Ended December 31, 2008

The Company's first quarter of fiscal year 2010 resulted in an increase in revenues, with a lower increase in expenses compared to the same period last year. As a result, the Company reported a net loss of $488,000 compared with a net loss of $1,142,000 for the first quarters of fiscal years 2010 and 2009, respectively.

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	Amount	Percent
Commissions	$ 17,987,000	$ 12,273,000	$ 5,714,000	47 %
Net dealer inventory gains	3,954,000	10,229,000	(6,275,000)	-61 %
Investment banking	1,653,000	667,000	986,000	148 %
Interest and dividends	500,000	697,000	(197,000)	-28 %
Transfer fees and clearance services	2,906,000	2,750,000	156,000	6 %
Other	1,388,000	1,236,000	152,000	12 %
	$ 28,388,000	$ 27,852,000	$ 536,000	2 %

Total revenues increased $536,000, or 2%, in the first quarter of fiscal year 2010 to $28,388,000 from $27,852,000 in the first quarter of fiscal year 2010. The increase in revenues is primarily due to slightly more favorable market conditions. Commission revenue increased $2,577,000, or 17%, to $17,987,000 from $15,410,000 during the first quarter of fiscal year 2010 compared with the same period in fiscal year 2009, which is attributable to generally more favorable market conditions. Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased $3,138,000, or 44%, to $3,954,000 from $7,092,000 during the first quarter of fiscal year 2010 compared with the same period in fiscal year 2009. The decrease is primarily due to less favorable trading conditions affecting our foreign trading activities in the quarter ended December 31, 2009 as compared to the same quarter in 2008.

Investment banking revenue increased $986,000, or 148% to $ 1,653,000 from $667,000 during the first quarter of 2010 compared to the same period in fiscal year 2009. This increase was attributable to greater success, advisory and consulting services provided during the quarter. The Company did not complete any investment banking transactions in the first quarter of fiscal year 2009. Interest and dividend income decreased by $197,000 or 28%, to $ 500,000 from $697,000 in the first quarter of fiscal year 2010 compared with the same period in fiscal year 2009. The decrease in interest income is attributable to generally lower customer margin account balances, lower customer free cash balances and lower prevailing interest rates during the quarter. Transfer fees increased $156,000 or 6%, to $2,906,000 in the first quarter of fiscal year 2010 from $2,750,000 in the first quarter of fiscal year 2009. The increase is due primarily to slightly more favorable business conditions.

Other revenue, consisting of asset management fees, miscellaneous transaction fees and trading fees and other investment income, increased $152,000, or 12%, to $1,388,000 from $1,236,000 during the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The increase is due primarily to slightly more favorable business conditions.

In comparison with the 2% increase in total revenues, total expenses remained virtually unchanged, down by $118,000 to $28,876,000 for the first quarter of fiscal year 2010 compared to $28,994,000 in the first quarter of fiscal year 2009. This decrease in total expenses is primarily a result of the management's focus on cost cutting.

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	Amount	Percent
Commissions	$ 21,387,000	$ 21,067,000	$ 320,000	2 %
Employee compensation	3,084,000	3,074,000	10,000	0 %
Clearing fees	449,000	1,193,000	(744,000)	-62 %
Communications	1,020,000	862,000	158,000	18 %
Occupancy and equipment costs	1,296,000	1,381,000	(85,000)	-6 %
Professional fees	505,000	763,000	(258,000)	-34 %
Interest	294,000	325,000	(31,000)	-10 %
Taxes, licenses and registration	350,000	259,000	91,000	35 %
Other administrative expenses	491,000	70,000	421,000	601 %
	$ 28,876,000	$ 28,994,000	$ (118,000)	0 %

Commission expense, which includes expenses related to commission revenue, net dealer inventory gains and investment banking, increased $320,000, or 2%, to $ 21,387,000 in the first quarter of fiscal year 2010 from $21,067,000 in the first quarter of fiscal year 2009. The increase is primarily attributable to an increase in the related commission revenues. Commission expense also includes the amortization of advances to registered representatives of $286,000 and $402,000 for the first quarter of fiscal years 2010 and 2009, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities.

Employee compensation expense increased $10,000, or 0%, to $3,084,000 in the first quarter of fiscal year 2010 from $3,074,000 in the first quarter of fiscal year 2009. Employee compensation includes the amortization of the fair value associated with stock based compensation of $182,000 and $237,000 in first quarter of fiscal years 2010 and 2009, respectively. Overall, combined commission and employee compensation expense, as a percentage of revenue decreased to 86% from 87% in the first quarter of fiscal year 2010 and 2009, respectively.

Clearing fees decreased $744,000 or 62%, to $449,000 in the first quarter of fiscal year 2010 from $1,193,000 in the first quarter of fiscal year 2009. The decrease in clearing fees is due to a change in the Company’s methodology of applying fees charged to brokers for their transactions as a reduction of its own costs in the quarter ended December

31, 2009 as compared with recording these fees as income in the quarter ended December 31, 2008.

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Communication expenses increased $158,000 or 18%, to $1,020,000 from $862,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The increase is due to the Company applying much of its IT infrastructure design across all of its locations due to the merger. Occupancy costs decreased $85,000, or 6%, to $1,296,000 from $1,381,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The decrease in occupancy expense is due to the Company reducing its square footage rented as well as negotiating slightly better rental agreements since the merger.

Professional fees decreased $258,000, or 34%, to $505,000 from $763,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The decrease in professional fees is primarily a result of the filing of a registration statement and generally higher legal costs associated with the merger with vFinance in fiscal year 2009, that were not incurred in the first quarter of fiscal year 2010.

Interest expense decreased $31,000, or 10%, to $294,000 from $325,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The decrease in interest expense is attributable to the Company having paid down $500,000 of its notes and renegotiating lower interest on its note with Christopher Dewey from an interest rate of 10% to 7%. Included in interest expense is the amortization of deferred financing costs of $11,000 and $14,000 the first quarter of fiscal years 2010 and 2009, respectively. Taxes, licenses and registration increased $91,000, or 35%, to $350,000 from $259,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The increase in taxes, licenses and registration is due to a general increase in fees paid to regulators and other governmental agencies. Other administrative expenses increased $421,000 or 601% to $491,000 from $70,000 in the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009. The increase is due to a finders fee paid in connection with an investment banking deal in the quarter ended December 31, 2009. No such fee was paid in the quarter ended December 31, 2008.

The Company reported a net loss of $488,000 in the first quarter of fiscal year 2010 compared to a net loss of $1,142,000 in the first quarter of fiscal year 2009. The net loss attributable to common stockholders in the first quarter of fiscal year 2010 was $585,000, or $.03 per common share, as compared to a net loss attributable to common stockholders in the first quarter of fiscal year 2009 of $1,227,000, or $.07 per common share. The net loss attributable to common stockholders for the first quarter of fiscal year 2010 and 2009 reflects $97,000 and $85,000, respectively of cumulative preferred stock dividends on the Company's preferred stock.

NON-G.A.A.P. INFORMATION

Management considers EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our board of directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities. For the three months ended December 31, 2009 and December 31, 2008, EBITDA, as adjusted, was $659,000 and $190,000 respectively. This improvement of $469,000 in the three months ended December 31, 2009 over 2008 resulted from a general decrease in operating costs focused on a decrease in occupancy costs and professional fees

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

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008
Net income (loss), as reported	$ (488,000)	$ (1,142,000)
Interest expense	294,000	325,000
Taxes	48,000	44,000
Depreciation	174,000	162,000
Amortization	155,000	162,000
EBITDA	183,000	(449,000)
Non-cash compensation expense	182,000	237,000
Forgivable loan write down	286,000	402,000
EBITDA, as adjusted	$ 651,000	$ 190,000

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

Liquidity and Capital Resources

Our Broker Dealer Subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which is designed to measure the general financial integrity and liquidity of a broker-dealer and requires the maintenance of minimum net capital. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth that exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer's net capital. National Securities has elected to use the alternative standard method permitted by the rule. This requires that National Securities maintain minimum net capital equal to the greater of $250,000 or a specified amount per security based on the bid price of each security for which National Securities is a market maker. At December 31, 2009, National Securities' net capital exceeded the requirement by $93,000. Due to its market maker status, vFinance Investments is required to maintain a minimum net capital of $1,000,000 and EquityStation is required to maintain $100,000, and at December 31, 2009 the firms had excess net capital of $233,000 and $90,000 respectively.

Advances, dividend payments and other equity withdrawals from the Company's subsidiary are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. During the quarter ended December 31, 2009 the Company did not have any equity withdrawals.

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

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

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

Cash used in operating activities for the first quarter of fiscal year 2010 amounted to $1,288,000, which was primarily due to our net loss of $488,000, reduced by non cash adjustments of $329,000 in depreciation and amortization, $286,000 in amortization of forgivable loans to brokers, $182,000 in stock compensation expense and $87,000 in amortization of note discount. A decrease in receivables from our clearing firms of $2,243,000, a decrease in securities owned at market value of $258,000, offset by a decrease in accounts payable and accrued expenses of $4,000,000 and an increase in other assets of $128,000 further contributed to the reduction in cash used in operations.

Cash used in investing activities for the first quarter of fiscal year 2010 amounted to $134,000, which was due to the need to purchase fixed assets under mostly capital leases due to the move of our vFinance Boca Raton data center into a co-location facility in Miami, Florida, the move of our Boca Raton office to a new location and the ongoing upgrade of technology in our Downtown Manhattan office.

Cash provided by operating activities for the first quarter of fiscal year 2009 amounted to $132,000, which was primarily due to our net loss of $1,142,000, reduced by non cash adjustments of $324,000 in depreciation and amortization, $237,000 in stock compensation expense and $123,000 in amortization of note discount. A decrease in receivables from our clearing firms of $987,000 and an increase in accounts payable and accrued expenses of $723,000, offset by an increase in securities owned at market value of $1,075,000 further contributed to the increase in cash provided by operations.

Cash provided by investing activities for the first quarter of fiscal year 2009 amounted to $167,000, which was due to the purchase of fixed assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following table shows the quoted market values of marketable securities owned ("long") by the Company, securities sold but not yet purchased ("short") the Company, and net positions as of December 31, 2009:

		Long		Short		Net
Corporate stocks	$	117,000	$	77,000	$	40,000
Corporate bonds		8,000		-		8,000
Government obligations		248,000		-		248,000
	$	373,000	$	77,000	$	296,000

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

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

Based on the evaluation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) required by the Exchange Act Rules 13a-15(b) or 15d-15(b), the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Changes in internal controls.

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the quarter ended December 31, 2009, there were no significant developments in the Company's legal proceedings. For a detailed discussion of the Company's legal proceedings, please refer to Note 6 herein, and the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Chief Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

February 16, 2009	By: /s/ Mark Goldwasser Mark Goldwasser Chief Executive Officer
February 16, 2009	By: /s/ Alan B. Levin Alan B. Levin Chief Financial Officer

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