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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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

As of May 12, 2015 there were 12,446,365 shares of the registrant's common stock outstanding.

NATIONAL HOLDINGS CORPORATION

FORM 10-Q

QUARTERLY PERIOD ENDED MARCH 31, 2015

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FORWARD-LOOKING STATEMENTS

The following information provides cautionary statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time and it is not possible for our management to predict all of such factors, nor can our management assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

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

| | March 31, 2015 (Unaudited) | September 30, 2014 |
|---|---|-----------------------------------|
| ASSETS | | |
| Cash | \$23,924,000 | \$24,465,000 |
| Restricted cash | 217,000 | 92,000 |
| Cash deposits with clearing organizations | 1,005,000 | 1,005,000 |
| Securities owned, at fair value | 914,000 | 1,061,000 |
| Receivables from broker-dealers and clearing organizations | 3,632,000 | 4,985,000 |
| Forgivable loans receivable | 936,000 | 662,000 |
| Other receivables, net | 4,277,000 | 3,998,000 |
| Prepaid expenses | 1,913,000 | 932,000 |
| Fixed assets, net | 804,000 | 752,000 |
| Intangible assets, net | 7,755,000 | 7,595,000 |
| Goodwill | 6,531,000 | 6,531,000 |
| Deferred tax asset, net | 11,551,000 | 11,925,000 |
| Other assets, principally refundable deposits | 532,000 | 790,000 |
| Total Assets | \$63,991,000 | \$64,793,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Securities sold, but not yet purchased, at fair value | \$34,000 | \$55,000 |
| Accrued commissions and payroll payable | 12,530,000 | 13,520,000 |
| Accounts payable and other liabilities | 5,118,000 | 5,715,000 |
| Deferred clearing credit | 893,000 | 971,000 |
| Total Liabilities | 18,575,000 | 20,261,000 |
| Stockholders' Equity | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none outstanding | | |
| Common stock \$0.02 par value, 150,000,000 shares authorized; 12,446,365 issued and outstanding at March 31, 2015 and at September 30, 2014 | 249,000 | 249,000 |
| Additional paid-in-capital | 80,090,000 | 79,837,000 |
| Accumulated deficit | (34,938,000) | (35,569,000) |

| | | |
|---|---------------------|---------------------|
| Total National Holdings Corporation Stockholders' Equity | 45,401,000 | 44,517,000 |
| Non-Controlling interest | 15,000 | 15,000 |
| Total Stockholders' Equity | 45,416,000 | 44,532,000 |
| Total Liabilities and Stockholders' Equity | \$63,991,000 | \$64,793,000 |

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Month Period Ended March 31, | | Six Month Period Ended March 31, | |
|--|--|--------------------|-------------------------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | |
| Commissions | \$25,746,000 | \$30,306,000 | \$50,162,000 | \$57,913,000 |
| Principal transactions | 2,705,000 | 5,983,000 | 6,143,000 | 9,142,000 |
| Investment banking | 4,391,000 | 5,619,000 | 9,513,000 | 8,952,000 |
| Investment advisory | 3,527,000 | 3,696,000 | 7,352,000 | 6,936,000 |
| Interest and dividends | 847,000 | 885,000 | 1,678,000 | 1,817,000 |
| Transfer fees and clearing services | 1,853,000 | 2,452,000 | 4,567,000 | 4,767,000 |
| Tax preparation and accounting | 3,748,000 | 3,737,000 | 4,507,000 | 4,275,000 |
| Other | 100,000 | 55,000 | 193,000 | 112,000 |
| Total Revenues | 42,917,000 | 52,733,000 | 84,115,000 | 93,914,000 |
| Operating Expenses | | | | |
| Commissions, compensation and fees | 36,099,000 | 41,929,000 | 71,387,000 | 76,528,000 |
| Clearing fees | 886,000 | 1,103,000 | 1,528,000 | 2,140,000 |
| Communications | 1,194,000 | 1,191,000 | 2,442,000 | 2,331,000 |
| Occupancy | 1,004,000 | 1,073,000 | 2,025,000 | 2,027,000 |
| License and registration | 467,000 | 307,000 | 867,000 | 753,000 |
| Professional fees | 1,095,000 | 1,228,000 | 1,820,000 | 2,098,000 |
| Interest | 2,000 | 8,000 | 6,000 | 24,000 |
| Depreciation and amortization | 294,000 | 298,000 | 568,000 | 562,000 |
| Other administrative expenses | 1,343,000 | 1,902,000 | 2,424,000 | 2,691,000 |
| Total Operating Expenses | 42,384,000 | 49,039,000 | 83,067,000 | 89,154,000 |
| Income before Income Tax Expense | 533,000 | 3,694,000 | 1,048,000 | 4,760,000 |
| Income tax expense | 196,000 | 134,000 | 417,000 | 241,000 |
| Net Income | \$337,000 | \$3,560,000 | \$631,000 | \$4,519,000 |
| Net income per share of common stock - Basic | \$0.03 | \$0.29 | \$0.05 | \$0.37 |
| Net income per share of common stock - Diluted | \$0.03 | \$0.28 | \$0.05 | \$0.37 |
| Weighted number of shares outstanding - Basic | 12,446,365 | 12,324,689 | 12,446,365 | 12,150,330 |
| Weighted number of shares outstanding - Diluted | 12,502,758 | 12,502,307 | 12,497,628 | 12,301,330 |

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
FOR THE SIX MONTHS ENDED MARCH 31, 2015

| | Common Stock | | Additional Paid-in- | Accumulated | Non-Controlling | Total |
|---|--------------|------------|------------------------|----------------|-----------------|------------------------|
| | Shares | \$ | Capital | Deficit | Interest | Stockholders Equity |
| Balance, September 30, 2014* | 12,446,365 | \$ 249,000 | \$ 79,837,000 | \$(35,569,000) | \$ 15,000 | \$ 44,532,000 |
| Stock-based compensation – stock options | | | 144,000 | | | 144,000 |
| Stock- based compensation for restricted stock units | | | 109,000 | | | 109,000 |
| Net income | | | | 631,000 | | 631,000 |
| Balance, March 31, 2015 | 12,446,365 | \$ 249,000 | \$ 80,090,000 | \$(34,938,000) | \$ 15,000 | \$ 45,416,000 |

*Reflects split adjusted shares and amounts for par value of common stock and additional paid in capital including the issuance of 887 shares for roundup of fractional shares.

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Six Month Period Ended | |
|--|-------------------------------|---------------------|
| | March 31, 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 631,000 | \$ 4,519,000 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities | | |
| Depreciation and amortization | 568,000 | 563,000 |
| Amortization of forgivable loans to registered representatives | 149,000 | 105,000 |
| Stock-based compensation | 253,000 | 425,000 |
| Provision for doubtful accounts | 173,000 | 197,000 |
| Amortization of deferred clearing credit | (78,000) | (50,000) |
| Deferred tax expense | 374,000 | - |
| Changes in assets and liabilities, net of effects of acquisition | | |
| Cash deposits with clearing organizations | - | 242,000 |
| Receivables from broker-dealers and clearing organizations | 1,353,000 | 1,786,000 |
| Other receivables, net | (452,000) | (1,497,000) |
| Restricted cash | (125,000) | - |
| Forgivable loans receivable | (423,000) | 63,000 |
| Securities owned, at fair value | 147,000 | (223,000) |
| Other assets, principally refundable deposits | 258,000 | (175,000) |
| Prepaid expenses | (981,000) | (324,000) |
| Accounts payable, accrued expenses and other liabilities | (2,156,000) | (461,000) |
| Securities sold, but not yet purchased, at fair value | (21,000) | 67,000 |
| Net cash (used in) provided by operating activities | (330,000) | 5,237,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash acquired in acquisition | - | 1,654,000 |
| Purchase of fixed assets | (211,000) | (72,000) |
| Net cash (used in) provided by investing activities | (211,000) | 1,582,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of certain liabilities of acquired entity | - | (5,400,000) |
| Net cash used in financing activities | - | (5,400,000) |

| | | | |
|--|---------------|---|---------------|
| NET (DECREASE) INCREASE IN CASH | (541,000 |) | 1,419,000 |
| CASH BALANCE | | | |
| Beginning of the period | 24,465,000 | | 19,985,000 |
| End of the period | \$ 23,924,000 | | \$ 21,404,000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 2,000 | | \$ 24,000 |
| Income taxes | \$ 1,123,000 | | \$ 33,000 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Acquisitions: | | | |
| Tangible assets acquired, excluding cash | \$ - | | \$ 3,933,000 |
| Identifiable intangible assets acquired | \$ 569,000 | | \$ 8,350,000 |
| Goodwill | \$ - | | \$ 6,531,000 |
| Liabilities assumed | \$ - | | \$ 11,628,000 |
| Common stock issued | | | \$ 8,840,000 |
| Contingent consideration payable | \$ 569,000 | | \$ - |

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

NATIONAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of National Holdings Corporation, a Delaware corporation (“National” or the “Company”), have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated financial statements as of March 31, 2015 and for the three and six months ended March 31, 2015 and 2014 are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the respective fiscal years. The consolidated statement of financial condition at September 30, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. The accompanying consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014 for additional disclosures and accounting policies.

In February 2015, the board of directors declared a 1 for 10 reverse stock split of the Company’s common stock. All share and per share information has been restated for all prior periods presented giving retroactive effect to the reverse stock split.

Certain items in the consolidated statement of operations for the fiscal 2014 periods have been reclassified to conform to the presentation in the fiscal 2015 periods. In addition, the condensed consolidated statements of operations and cash flows for the three and six months ended March 31, 2014 have been retrospectively adjusted to reflect measurement period adjustments of preliminary allocations of the purchase price related to the Gilman Ciocia, Inc. (“Gilman”) acquisition (see Note 7) which was finalized in the fourth quarter of fiscal year 2014. The effect of the measurement period adjustments was to reduce identifiable assets acquired by approximately \$2,066,000 with a corresponding increase in goodwill, which resulted in a reduction of amortization of intangibles of \$324,000 and \$593,000 for the three and six month ended March 31, 2014, respectively. The reclassifications and adjustments for the three and six months ended March 2014 are as follows:

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| | For the Three Months Ended March 31, 2014 | | For the Six Months Ended March 31, 2014 | |
|--|---|--------------|--|--------------|
| | As previously Reported | As Revised | As previously Reported | As Revised |
| Total revenues | \$52,684,000 | \$52,733,000 | \$94,478,000 | \$93,914,000 |
| Total operating expenses | 49,314,000 | 49,039,000 | 90,311,000 | 89,154,000 |
| Income before income taxes | 3,370,000 | 3,694,000 | 4,167,000 | 4,760,000 |
| Income taxes | 134,000 | 134,000 | 241,000 | 241,000 |
| Net income | \$3,236,000 | \$3,560,000 | \$3,926,000 | \$4,519,000 |
| Net income per share attributable to common stockholders | | | | |
| Basic | \$0.26 | \$0.29 | \$0.32 | \$0.37 |
| Diluted | \$0.26 | \$0.28 | \$0.32 | \$0.37 |

NOTE 2. ORGANIZATION AND DESCRIPTION OF BUSINESS

National was organized in 1996 and operates through its wholly owned subsidiaries which principally provide diverse financial services. Through its broker-dealer and investment advisory subsidiaries, the Company (1) offers full service retail brokerage to high net worth individual and institutional clients, (2) provides investment banking, merger, acquisition and advisory services to micro, small and mid-cap high growth companies, (3) engages in trading securities, including making markets in micro and small-cap, NASDAQ and other exchange listed stocks and (4) provides liquidity in the United States Treasury marketplace. Broker-dealer subsidiaries consist of National Securities Corporation (“National Securities” or “NSC”) and vFinance Investments, Inc. (“vFinance Investments”) (collectively, the “Broker-Dealer Subsidiaries”). As a result of the merger with Gilman in October 2013 (See Note 7), the Company added Prime Capital Services, Inc. (“Prime”) to its portfolio of Broker Dealer Subsidiaries, however, in November 2013, National Securities and Prime received approval from the Financial Industry Regulatory Authority (“FINRA”) allowing for a mass transfer of Prime’s brokers and customer accounts to National Securities. This transfer which was completed on November 22, 2013, was done to reduce overhead and consolidate the administrative and regulatory structures of the two entities. The Company filed a Broker Dealer withdrawal for Prime in January 2014, which was subsequently approved in March 2014 by the FINRA and the SEC. The Broker-Dealer Subsidiaries conduct a national securities brokerage business through their main offices in New York City, Boca Raton, Florida, and Seattle, Washington. The Broker-Dealer subsidiaries are introducing brokers and clear all transactions through clearing organizations, on a fully disclosed basis. The Broker-Dealer Subsidiaries are registered with the Securities and Exchange Commission (“SEC”) and the Commodities and Futures Trading Commission (“CFTC”), and are members of FINRA, Securities Investor Protection Corporation and the National Futures Association.

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

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

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

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

NOTE 3. RECEIVABLES FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS AND OTHER RECEIVABLES

At March 31, 2015 and September 30, 2014, the receivables of \$3,632,000 and \$4,985,000, respectively, from broker-dealers and clearing organizations represent net amounts due for fees and commissions associated with the Company's retail brokerage business as well as asset based fees revenues associated with the Company's asset management advisory business.

Other receivables, net, at March 31, 2015 and September 30, 2014 of \$4,277,000 and \$3,998,000, respectively, principally represent trailing fees and fees for tax and accounting services and are net of allowance for doubtful accounts of \$509,000 and \$336,000, respectively.

NOTE 4. FORGIVABLE LOANS RECEIVABLE

From time to time, the Company's operating subsidiaries may make loans, evidenced by promissory notes, primarily to newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest ranging up to 9%). These notes have various schedules for repayment or forgiveness based on production or retention requirements being met and mature at various dates through 2020. Forgiveness of loans amounted to \$149,000 and \$105,000 for six months ended March 31, 2015 and 2014, respectively, and the related compensation was included in commissions, compensation and fees in the condensed consolidated statements of operations. In the event the advisor's affiliation with the subsidiary terminates, the advisor is required to repay the unamortized balance of any notes payable. The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of March 31, 2015, and September 30, 2014, no allowance for doubtful accounts was required.

Forgivable loan activity for the six months ended March 31, 2015 is as follows:

| | |
|--------------------------|-----------|
| Balance, October 1, 2014 | \$662,000 |
| Additions | 483,000 |
| Amortization | (149,000) |
| Repayments | (60,000) |
| Balance, March 31, 2015 | \$936,000 |

There were no unamortized loans outstanding attributable to registered representatives who ended their affiliation with the Broker-Dealer Subsidiaries prior to the fulfillment of their obligation.

NOTE 5. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED AT FAIR VALUE

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

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions

The following tables show the fair values of securities owned by the Broker-Dealer Subsidiaries, and securities sold, not yet purchased by such entities, as of March 31, 2015 and September 30, 2014:

Fair Value Measurements

As of March 31, 2015

| Securities owned at fair value | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|-----------|---------|---------|-----------|
| Corporate stocks | \$237,000 | - | - | \$237,000 |

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| | | | | |
|-------------------------------|-----------|-----------|-----|-----------|
| Municipal bonds | 503,000 | - | - | 503,000 |
| Restricted stock and warrants | - | 174,000 | - | 174,000 |
| | \$740,000 | \$174,000 | \$- | \$914,000 |

| Securities sold, not yet purchased at fair value | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Municipal bonds | \$34,000 | \$- | \$- | \$34,000 |

As of September 30, 2014

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

| Securities sold, but not yet purchased at fair value | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Corporate stocks | \$55,000 | - | - | \$55,000 |

NOTE 6. FIXED ASSETS

Fixed assets as of March 31, 2015 and September 30, 2014 consist of the following:

| | March 31, 2015 | September 30, 2014 | Estimated Useful Lives |
|---|-------------------|--------------------------|--|
| Equipment | \$526,000 | \$339,000 | 5 |
| Furniture and fixtures | 151,000 | 139,000 | 5 |
| Leasehold improvements | 578,000 | 566,000 | Lesser of useful life or term of lease |
| Capital leases (primarily composed of computer equipment) | 453,000 | 453,000 | 5 |
| | 1,708,000 | 1,497,000 | |
| Less accumulated depreciation and amortization | (904,000) | (745,000) | |
| Fixed assets – net | \$804,000 | \$752,000 | |

Depreciation and amortization expense associated with fixed assets for the six months ended March 31, 2015 and 2014 was \$159,000 and \$100,000, respectively.

NOTE 7 - BUSINESS COMBINATIONS

In February 2015, Gilman acquired certain assets of a tax preparation and accounting business that was deemed to be a business acquisition. The consideration for the transaction consisted of contingent consideration payable in cash having a fair value of \$569,000, for which a liability (included in Accounts payable and other liabilities) was recognized based on the estimated acquisition date fair value of the potential earn-out. The earn-out is based on revenue, as defined in the agreement, during the 48-month period following the closing up to a maximum of \$640,000. The liability was valued using an income-based approach using unobservable inputs (Level 3) and reflects the Company's own assumptions. The liability will be revalued at each Balance Sheet date with changes therein recorded in earnings. There was no change in the estimated fair value of the liability at March 31, 2015. The fair value of the acquired assets was allocated to customer relationships, which will be amortized over seven years. Results of operations of the acquired business are included in the accompanying consolidated statements of operations from the date of acquisition and were not material. In addition, based on materiality, pro forma results are not presented.

On October 15, 2013, the Company completed a merger with Gilman pursuant to the terms and conditions of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 20, 2013, by and among the Company, National Acquisition Corp., a Delaware corporation and the Company's wholly-owned subsidiary ("Merger Sub"), and

Gilman. Pursuant to the Merger Agreement, Merger Sub was merged with and into Gilman, with Gilman surviving the merger and becoming a wholly-owned subsidiary of the Company. Gilman provides federal, state and local tax preparation services to individuals predominantly in upper and middle income tax brackets and accounting services to small and middle size companies. In addition, through wholly owned subsidiaries, Gilman is engaged in broker-dealer, investment advisory, insurance product sales and mortgage brokerage activities.

Pursuant to the Merger Agreement, the Company issued to Gilman's stockholders 2,266,669 shares of its common stock valued at \$8,840,000 determined based on the closing market price of the Company's common stock on the acquisition date, and became the owner of 100% of the outstanding shares of Gilman's common stock. Additionally, the Company financed repayment of \$5,400,000 of Gilman's liabilities through a capital contribution to Gilman. In August 2013, the Company issued 1,058,333 shares of its common stock pursuant to a private placement which generated net proceeds of \$3,016,000 to partially finance the cash consideration of \$5,400,000.

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

Assets

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

Liabilities

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

The goodwill recognized, none of which is deductible for income tax purposes, is attributable to the assembled workforce of Gilman and to expected synergies and other benefits that the Company believes will result from combining its operations with Gilman's. The intangible assets recognized are primarily attributable to expected increased margins that the Company believes will result from Gilman's existing customer relationships and increased margins from financial planning and tax preparation services that the Company will offer to its existing clients.

The following table presents intangible assets acquired, including \$569,000 attributable to the February 2015 Gilman acquisition, their carrying amount as of March 31, 2015 and their estimated useful lives:

| Intangible asset | Fair Value | Accumulated Amortization | Carrying Value | Estimated |
|------------------------|-------------|--------------------------|----------------|-------------|
| | | | | Useful Life |
| | | | | (years) |
| Customer relationships | \$6,969,000 | \$ 948,000 | \$6,021,000 | 7&10 |
| Non-compete | 296,000 | 216,000 | 80,000 | 2 |
| Brands | 1,654,000 | - | 1,654,000 | Indefinite |
| | \$8,919,000 | \$ 1,164,000 | \$7,755,000 | |

Amortization expense associated with intangible assets, for the six months ended March 31, 2015 and 2014 was \$409,000 and \$463,000, respectively.

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

| | |
|---------------|--------------------|
| Year ending | |
| September 30, | |
| 2015 | \$426,000 |
| 2016 | 733,000 |
| 2017 | 719,000 |
| 2018 | 719,000 |
| 2019 | 719,000 |
| Thereafter | 2,785,000 |
| Total | \$6,101,000 |

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

(Unaudited)

Six Month
Period
Ended

| | March 31, 2014 |
|---|-------------------|
| Revenues | \$95,518,000 |
| Net income attributable to common stockholders | \$3,881,000 |
| Basic earnings per share | \$0.31 |
| Diluted earnings per share | \$0.31 |
| Weighted number of shares outstanding – basic | 12,339,219 |
| Weighted number of shares outstanding – Diluted | 12,490,219 |

These pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results to reflect, among other things, 1) additional amortization that would have been charged assuming the fair value adjustments to amortizable intangible assets after giving effect to measurement period adjustments (see Note 1), had been applied, 2) the shares issued by the Company to acquire Gilman, and 3) the decrease in interest expense related to Gilman's liabilities paid by the Company. These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

NOTE 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of March 31, 2015 and September 30, 2014 consist of the following:

| | March 31, 2015 | September 30, 2014 |
|----------------------------------|-------------------|--------------------------|
| Federal and state income tax | \$- | \$732,000 |
| Legal | 606,000 | 911,000 |
| Audit | 274,000 | 294,000 |
| Telecommunications | 246,000 | 240,000 |
| Data services | 364,000 | 387,000 |
| Regulatory | 624,000 | 838,000 |
| Settlements | 349,000 | 440,000 |
| Deferred rent | 91,000 | 160,000 |
| Contingent consideration payable | 569,000 | - |
| Other | 1,995,000 | 1,713,000 |
| Total | \$5,118,000 | \$5,715,000 |

NOTE 9. PER SHARE DATANet Income per Common Share

Basic net income per share of common stock attributable to the Company is computed on the basis of the weighted average number of shares of common stock outstanding after giving effect to the 1 for 10 reverse stock split. Diluted net income per share is computed on the basis of such weighted average number of shares of common stock outstanding plus the dilutive effect of incremental shares of common stock potentially issuable under outstanding options, warrants and unvested restricted stock units utilizing the treasury stock method.

| | Three Month Period Ended March 31, | | Six Month Period Ended March 31, | |
|---|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Net income | \$337,000 | \$3,560,000 | \$631,000 | \$4,519,000 |
| Denominator: | | | | |
| Denominator for basic earnings per share-weighted average shares | 12,446,365 | 12,324,689 | 12,446,365 | 12,150,330 |
| Effect of dilutive securities: | | | | |
| Options | 22,826 | 49,808 | 24,226 | 26,639 |
| Warrants | - | 3,449 | - | - |
| Unvested restricted stock units | 33,567 | 124,361 | 27,037 | 124,361 |
| Denominator for diluted earnings per share-adjusted weighted-average shares | 12,502,758 | 12,502,307 | 12,497,628 | 12,301,330 |
| Income per share: | | | | |
| Net income available to common stockholders | | | | |
| Basic | \$0.03 | \$0.29 | \$0.05 | \$0.37 |
| Diluted | \$0.03 | \$0.28 | \$0.05 | \$0.37 |

The following potential common share equivalents are not included in the above diluted computation because to do so would be anti-dilutive:

Three and Six Month
Period Ended March
31,
2015 2014

| | | |
|----------|-----------|-----------|
| Options | 1,128,000 | 1,203,361 |
| Warrants | 89,676 | 89,676 |
| | 1,217,676 | 1,293,037 |

NOTE 10. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company's business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts on a fee basis for the Company. 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, periodically and as necessary, the credit standing of its customers and counterparties. Amounts due from customers that are considered uncollectible by the clearing broker are charged back to the Company by the clearing broker when such amounts become determinable. Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction, and/or (iii) charged to operations, based on the particular facts and circumstances.

The Company maintains cash in bank deposits, which, at times, may exceed federally insured limits. In the event of a financial institution's insolvency, the recovery of cash may be limited. The Company has not experienced and does not expect to experience losses on such accounts.

A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security (or a security exchangeable into the same security) at a later date at a lower price. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss.

NOTE 11. NEW ACCOUNTING GUIDANCE

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The update requires the netting of unrecognized tax benefits against a deferred tax asset for the loss or other carryforward that would apply in settlement of the uncertain tax positions. The new guidance was effective for the Company beginning October 1, 2014. The adoption did not have any impact on the Company's financial statements.

In May 2014, the FASB issued an accounting standard update on revenue recognition. The new guidance creates a single, principle-based model for revenue recognition and expands and improves disclosures about revenue. The new guidance is effective for the Company beginning October 1, 2017, and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Leases

As of March 31, 2015, the Company leases office space in various states expiring at various dates through August 2021, and is committed under operating leases for future minimum lease payments as follows:

| Fiscal Year | Rental | Less, | Net |
|--------------------|---------------|--------------|------------|
|--------------------|---------------|--------------|------------|

| Ending | Expense | Sublease | |
|---------------|----------------|-----------------|---------------|
| | | | Income |
| 2015 | \$1,681,000 | \$68,000 | \$1,613,000 |
| 2016 | 2,807,000 | 136,000 | 2,671,000 |
| 2017 | 2,108,000 | 80,000 | 2,028,000 |
| 2018 | 1,461,000 | - | 1,461,000 |
| 2019 | 770,000 | - | 770,000 |
| Thereafter | 1,360,000 | - | 1,360,000 |
| | \$10,187,000 | \$284,000 | \$9,903,000 |

The total amount of rent payable under the leases is recognized on a straight line basis over the term of the leases. As of March 31, 2015 and September 30, 2014, the Company has recognized deferred rent payable of \$91,000 and \$160,000, respectively, which is included in "Accounts payable and other liabilities" on the condensed consolidated statement of financial condition. Rental expense under all operating leases for the six months ended March 31, 2015 and March 31, 2014 was \$1,973,000 and \$1,926,000 respectively. Sublease income under all operating subleases for the six months ended March 31, 2015 and 2014 was approximately \$70,000 and \$28,000 respectively.

Litigation and Regulatory Matters

The Company and its subsidiaries are defendants or respondents in various pending and threatened arbitrations, administrative proceedings, and lawsuits seeking compensatory damages of approximately \$29,400,000. Many of these claimants also seek, in addition to compensatory damages, punitive or treble damages, and all seek interest, costs and fees. These matters arise in the normal course of business. The Company and its subsidiaries believe these actions are without merit and intend to vigorously defend themselves in these actions. The ultimate outcome of these matters cannot be determined at this time.

The Company establishes liabilities for potential losses from complaints, legal actions, government investigations and proceedings where the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, the Company bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect the Company's estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, the Company cannot predict with certainty the eventual loss or range of loss related to such matters. These claims may be covered by our errors and omissions insurance policy. While the Company will vigorously defend itself in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on the Company's financial position. At March 31, 2015 and September 30, 2014, the Company accrued approximately \$542,000 and \$440,000, respectively, for legal fees and potential settlements for these matters, which are included in "Accounts payable and other liabilities" in the accompanying condensed consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of \$411,000 and \$318,000 for the six months ended March 31, 2015 and 2014, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

Robert B. Fagenson, the Company's Chief Executive Officer and Executive Chairman of the Board of Directors, is a party to an Independent Contractor Agreement, dated February 27, 2012, with NSC, whereby in exchange for establishing and maintaining a branch office of NSC in New York City, (the "Branch"), Mr. Fagenson receives compensation equivalent to 50% of any net income earned at the Branch, which for the six months ended March 31, 2015 and 2014 amounted to compensation of \$36,000 and \$48,000 respectively. Additionally, Mr. Fagenson's daughter, Stephanie Fagenson, is employed by NSC as Director of Corporate Access and receives an annual salary of \$90,000 in fiscal 2015 and received an annual salary of \$72,000 in fiscal 2014.

NOTE 14. NET CAPITAL REQUIREMENTS

National Securities is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) (the Rule), which, among other things, requires the maintenance of minimum net capital. In February 2015, pursuant to a directive from FINRA, National Securities reverted back to using the alternative method of computing net capital from the aggregate indebtedness method. At March 31, 2015, National Securities had net capital of \$7,165,930 which was \$6,915,930 in excess of its required net capital of \$250,000. National Securities claims exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

vFinance Investments is subject to the Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At March 31, 2015, vFinance Investments had net capital of \$3,003,962 which was \$2,003,962 in excess of its required net capital of \$1,000,000. vFinance Investments percentage of aggregate indebtedness to net capital was 153.8%. vFinance Investments claims exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

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

NOTE 15. STOCK BASED COMPENSATION

Restricted Stock Units

During the six months ended March 31, 2015 and 2014, the Company recorded stock based compensation expense of \$109,000 and \$119,000, respectively, related to restricted stock units.

A summary of the Company's non-vested restricted stock units for the six months ended March 31, 2015 is as follows:

| | Shares | Weighted Average Grant Date | Fair Value per share * |
|--|----------|--------------------------------------|------------------------------|
| Non-vested restricted stock units at October 1, 2014 | 57,790 | | \$ 4.38 |
| Forfeited | (1,292) | | \$ 5.72 |
| Non-vested restricted stock units at March 31, 2015 | 56,498 | | \$ 3.87 |

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

At March 31, 2015, there was \$109,000 of unrecognized compensation expense related to unvested RSUs, which is expected to be recognized in 2015.

Stock Options

There was no stock option activity during the six months ended March 31, 2015. Information with respect to outstanding stock options at March 31, 2015 follows:

| Outstanding Options | Weighted Average Exercise Price Per Share | Weighted Average Grant-Date Fair Value Per Share | Weighted | Aggregate |
|------------------------|---|--|---|--------------------|
| | | | Average Remaining Contractual Term | Intrinsic Value |

| | | | | |
|-----------|---------|------|------|-----------|
| 1,218,000 | \$ 6.40 | 1.00 | 4.20 | \$ 45,000 |
|-----------|---------|------|------|-----------|

During the six months ended March 31, 2015 and 2014 the Company recognized compensation expense of \$144,000 and \$427,000, respectively related to stock options. As of March 31, 2015, the Company had approximately \$41,000 of unamortized compensation costs related to non-vested options, which will be recognized in 2015.

Warrants

There were 89,676 warrants outstanding at March 31, 2015, all of which were exercisable, have an exercise price of \$5.00 of which 25,000 expire in June 2015 and 64,676 expire in July 2015.

NOTE 16. INCOME TAXES

The Company files a consolidated federal income tax return and certain combined state and local income tax returns with its subsidiaries. Income tax expense amounted to \$196,000 (\$6,000 of current benefit and \$202,000 of deferred expense) and \$417,000 (\$43,000 current expense and \$374,000 deferred expense) for the three-month and six-month periods ended March 31, 2015, respectively and \$134,000 and \$241,000 for the three-month and six-month periods ended March 31, 2014, respectively. The tax expense for the three-month and six-month periods ended March 31, 2015 represents the estimated annual effective tax rate. The effective tax rate for the three-month and six-month periods ended March 31, 2014 differs from the statutory income tax rate, primarily due to utilization of net operating loss carryforwards for which valuation allowances had previously been provided.

At March 31, 2015, the Company had a net deferred tax asset of \$11,551,000, principally comprised of net operating loss carryforwards. Management believes that is more likely than not that its deferred tax assets will be realized and, accordingly, has not provided a valuation allowance against such amount.

NOTE 17. SEGMENT INFORMATION

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

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

Segment information for the three months ended March 31, 2015 and 2014 is as follows:

| | Brokerage and Advisory Services | Tax and Accounting Services | Corporate | Total |
|-------------------------------------|--|--|------------------|----------------|
| Three Months Ended March 31, | | | | |
| <u>2015</u> | | | | |
| Revenues | \$39,163,000 | \$3,754,000 | \$- | \$42,917,000 |
| Pre-tax income (loss) | 269,000 | 1,184,000 | (920,000) | 533,000 (a) |
| Identifiable assets | 42,302,000 | 3,996,000 | 17,693,000 | 63,991,000 (b) |
| Depreciation and amortization | 203,000 | 19,000 | 72,000 | 294,000 |
| Interest | 2,000 | - | - | 2,000 |
| Capital expenditures | 7,000 | - | - | 7,000 |
| <u>2014</u> | | | | |
| Revenues | \$48,801,000 | \$3,932,000 | \$- | \$52,733,000 |
| Pre-tax (loss) income | 3,542,000 | 1,427,000 | (1,275,000) | 3,694,000 (a) |
| Identifiable assets | 28,951,000 | 18,700,000 | 1,433,000 | 49,084,000 (c) |
| Depreciation and amortization | 110,000 | (42,000) | 230,000 | 298,000 |
| Interest | 7,000 | 1,000 | - | 8,000 |
| Capital expenditures | 48,000 | - | - | 48,000 |

| | Brokerage and Advisory Services | Tax and Accounting Services | Corporate | Total |
|--|--|--|------------------|--------------|
|--|--|--|------------------|--------------|

**Six Months Ended March 31,
2015**

| | | | | |
|-------------------------------|--------------|-------------|--------------|----------------|
| Revenues | \$79,603,000 | \$4,512,000 | \$- | \$84,115,000 |
| Pre-tax income (loss) | 2,251,000 | 555,000 | (1,758,000) | (a) 1,048,000 |
| Identifiable assets | 42,302,000 | 3,996,000 | 17,693,000 | (b) 63,991,000 |
| Depreciation and amortization | 320,000 | 26,000 | 222,000 | 568,000 |
| Interest | 5,000 | 1,000 | - | 6,000 |
| Capital expenditures | 194,000 | 11,000 | 6,000 | 211,000 |

2014

| | | | | |
|-------------------------------|--------------|-------------|--------------|----------------|
| Revenues | \$89,444,000 | \$4,470,000 | \$- | \$93,914,000 |
| Pre-tax (loss) income | 6,465,000 | 521,000 | (2,226,000) | (a) 4,760,000 |
| Identifiable assets | 28,951,000 | 18,700,000 | 1,433,000 | (c) 49,084,000 |
| Depreciation and amortization | 216,000 | (82,000) | 429,000 | 563,000 |
| Interest | 14,000 | 4,000 | 6,000 | 24,000 |
| Capital expenditures | 72,000 | - | - | 72,000 |

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

(b) Consists principally of deferred tax asset.

(c) Consists of cash, intangibles and goodwill.

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 Report may contain certain statements of a forward-looking nature relating to future events or future business performance. Any such statements that refer to the Company's estimated or anticipated future results or other non-historical facts are forward-looking and reflect the Company's current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, risks and uncertainties detailed in Item 1 above. Any forward-looking statements contained in or incorporated into this Quarterly Report on Form 10-Q 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, except as required by law.

OVERVIEW

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

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

The Company's wholly-owned subsidiary, National Asset Management, Inc., a Washington corporation ("NAM"), is a federally-registered investment adviser providing asset management advisory services to high net worth clients for a fee based upon a percentage of assets managed. In May 2014, the Company completed a transfer to NAM of all the investment advisors and customer assets of Asset & Financial Planning, the registered investment advisor acquired in the Gilman merger.

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

As of March 31, 2015, the Company had approximately 1,230 associated personnel serving retail and institutional customers, trading and investment banking clients. In addition to our 32 Company offices located in New York, New Jersey, Florida, Texas, Washington and Illinois branches, the Company has approximately 108 other registered offices, owned and operated by independent owners who maintain all appropriate licenses and are responsible for all office overhead and expenses.

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

RESULTS OF OPERATIONS**Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014****Summary**

The Company's second quarter of fiscal year 2015 resulted in a decrease in revenues and operating expenses of 19% and 14%, respectively, resulting in a decrease in margin of approximately 5%. Most business divisions saw a decrease in revenue during the quarter as compared to the same quarter last year.

Our retail commissions decreased in part due to the previously disclosed suspension of the sales of alternative investment products in November 2014. Although many of these products have since been reinstated to the Company's list of approved alternative investment products, sales are improving but have not yet rebounded to the levels achieved in fiscal 2014. Lower transaction volumes and the corresponding reduction in trade execution also contributed to the reduction in retail commissions in the quarter.

Principal transactions, consisting primarily of our trading activities in equities, municipal and corporate debt and treasury bonds saw a decline of 55%. This decline is primarily due to the extraordinary volumes seen in the second quarter of fiscal year 2014, specifically, the equity sectors and the resurgence in municipal volumes and spreads in 2014 returned to more normalized levels in 2015. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts.

Investment banking saw a decline of 22% over the same quarter last year. As a result of these primary factors, the Company reported after tax net income of \$337,000 and \$3,560,000 for the quarters ended March 31, 2015 and 2014, respectively.

Revenues

| | Three Months Ended | | Increase (Decrease) | |
|-------------|--------------------|--------------|----------------------|---------|
| | March 31, 2015 | 2014 | Amount | Percent |
| Commissions | \$25,746,000 | \$30,306,000 | \$(4,560,000) | -15 % |

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| | | | | | |
|-------------------------------------|---------------------|---------------------|----------------------|------------|----------|
| Principal transactions | 2,705,000 | 5,983,000 | (3,278,000) | -55 | % |
| Investment banking | 4,391,000 | 5,619,000 | (1,228,000) | -22 | % |
| Investment advisory | 3,527,000 | 3,696,000 | (169,000) | -5 | % |
| Interest and dividends | 847,000 | 885,000 | (38,000) | -4 | % |
| Transfer fees and clearing services | 1,853,000 | 2,452,000 | (599,000) | -24 | % |
| Tax preparation and accounting | 3,748,000 | 3,737,000 | 11,000 | 0 | % |
| Other | 100,000 | 55,000 | 45,000 | 82 | % |
| Total Revenues | \$42,917,000 | \$52,733,000 | \$(9,816,000) | -19 | % |

Total revenues decreased \$9,816,000, or 19%, in the second quarter of fiscal year 2015 to \$42,917,000 from \$52,733,000 in the second quarter of fiscal year 2014. Our retail commissions decreased in part due to the previously disclosed suspension of the sales of alternative investment products in November 2014. Although many of these products have since been reinstated to the Company's list of approved alternative investment products, sales are improving but have not yet rebounded to the levels achieved in fiscal 2014. Principal transactions, consisting primarily of our trading activities in equities, municipal and corporate debt and treasury bonds saw a decline of 55%. This decline is primarily due to the extraordinary volumes seen in the second quarter of fiscal year 2014, specifically, the equity sectors and the resurgence in municipal volumes and spreads in 2014 returned to more normalized levels. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts. Investment banking also saw a decline of 22% over the same period last year.

Commission revenue decreased \$4,560,000, or 15%, to \$25,746,000 from \$30,306,000 during the second quarter of fiscal year 2015 compared with the same period in fiscal year 2014, which is the result of lower transaction volumes and lower sales of alternative investment products as a result of the news and suspension of sales in November 2014.

Principal transactions, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased \$3,278,000, or 55%, to \$2,705,000 from \$5,983,000 during the second quarter of fiscal year 2015 compared with the same period in fiscal year 2014. As mentioned above trading activities in equities, municipal and corporate debt and treasury bonds saw a decline from the extraordinary volumes seen in the second quarter of fiscal year 2014, specifically, the equity sectors and the resurgence in municipal volumes and spreads in 2014 returned to more normalized levels in 2015. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts.

Investment banking fees decreased \$1,228,000, or 22%, to \$4,391,000 from \$5,619,000 during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. This decrease is attributable to a lower number of capital raising events for clients during the quarter.

Investment advisory fees, decreased \$169,000, or 5%, to \$3,527,000 from \$3,696,000 in the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decrease is primarily due to a decrease in assets under management.

Interest and dividend income decreased by \$38,000, or 4%, to \$847,000 from \$885,000 in the second quarter of fiscal year 2015 compared with the same period in fiscal year 2014. This decrease is primarily attributable to slightly lower customer margin and free cash balances in place during the quarter.

Transfer fees and clearing services decreased \$599,000, or 24%, to \$1,853,000 from \$2,452,000 in the second quarter of fiscal year 2015 compared with the same period in fiscal year 2014. This decrease is primarily due to fewer retail transactions processed during the period.

Tax preparation and accounting fees increased \$11,000, to \$3,748,000 from \$3,737,000 in the second quarter of fiscal year 2015 compared with the same period in fiscal year 2014.

Other revenue increased \$45,000, or 82%, to \$100,000 from \$55,000 during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014.

Operating Expenses

In comparison with the 19% decrease in total revenues, total expenses decreased by 14%, or \$6,655,000, to \$42,384,000 for the second quarter of fiscal year 2015 compared to \$49,039,000 in the same quarter of fiscal year 2014. The decrease in total expenses is primarily as a result of the decrease in commissions, compensation and fees. The decrease in variable cost was commensurate with the decline in commissionable revenue.

| | Three Months Ended | | Increase (Decrease) | |
|------------------------------------|--------------------|--------------|----------------------|---------|
| | 2015 | 2014 | Amount | Percent |
| Commissions, compensation and fees | \$36,099,000 | \$41,929,000 | \$(5,830,000) | -14 % |
| Clearing fees | 886,000 | 1,103,000 | (217,000) | -20 % |
| Communications | 1,194,000 | 1,191,000 | 3,000 | 0 % |
| Occupancy | 1,004,000 | 1,073,000 | (69,000) | -6 % |
| License and registration | 467,000 | 307,000 | 160,000 | 52 % |
| Professional fees | 1,095,000 | 1,228,000 | (133,000) | -11 % |

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| | | | | | |
|---------------------------------|---------------------|---------------------|----------------------|------------|----------|
| Interest | 2,000 | 8,000 | (6,000) | -75 | % |
| Depreciation and amortization | 294,000 | 298,000 | (4,000) | -1 | % |
| Other administrative expenses | 1,343,000 | 1,902,000 | (559,000) | -29 | % |
| Total Operating Expenses | \$42,384,000 | \$49,039,000 | \$(6,655,000) | -14 | % |

Commission, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as compensation to our employees, brokers, and support staff, decreased by \$5,830,000, or 14%, to \$36,099,000 from \$41,929,000 for the second quarter of fiscal year 2015 compared to the same quarter of fiscal year 2014. The decrease is directly attributable to the decrease of revenues. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating \$83,000 and \$54,000 for the second quarter of fiscal year 2015 and 2014, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Employee compensation includes the amortization of the fair value associated with stock based compensation of \$85,000 and \$217,000 for the three months ended March 31, 2015 and 2014, respectively.

Clearing fees decreased \$217,000, or 20%, to \$886,000 from \$1,103,000 in the second quarter of fiscal year 2015 compared to the same quarter of fiscal year 2014. The decrease is partly a result of the decline in total transactions executed during the second quarter of fiscal 2015 as compared to the same quarter in fiscal year 2014, combined with negotiated reductions in certain clearing costs and amortization of deferred clearing credits, when the Company signed coterminous amendments to its clearing agreements with National Financial Services, its primary clearing firm for the Broker Dealer Subsidiaries.

Communications expenses increased by \$3,000, to \$1,194,000 from \$1,191,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014.

Occupancy expenses decreased \$69,000, or 6%, to \$1,004,000 from \$1,073,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014. This decrease is primarily due to the consolidation of two Gilman offices into one and reduction of the total square footage of office space rented.

License and registration fees increased \$160,000, or 52%, to \$467,000 from \$307,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014. This increase is primarily due to the Company paying \$45,000 for its new NASDAQ listing in March 2015 and higher fees paid for newly registered associates and branches in the second quarter of 2015 as compared to the same period in 2014.

Professional fees decreased \$133,000, or 11% to \$1,095,000 from \$1,228,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014. This decrease is attributed to the Company having collected more of its defense costs associated with various arbitrations from its registered representatives.

Interest expense decreased by \$6,000, or 75%, to \$2,000 from \$8,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014.

Depreciation and amortization expenses decreased \$4,000, or 1%, to \$294,000 from \$298,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014.

Other administrative expenses decreased \$559,000, or 29%, to \$1,343,000 from \$1,902,000 in the second quarter of fiscal year 2015 compared with the same quarter of fiscal year 2014. This decrease is primarily attributable to cost cutting of insurance and office supplies.

Six Months Ended March 31, 2015 Compared to Six Months Ended March 31, 2014

Summary

The Company's first six months of fiscal year 2015 resulted in a decrease in revenues and operating expenses of 10% and 7% respectively, resulting in a decrease in margin of approximately 3%. Commissions and principal transaction revenues declined while investment banking saw an increase.

Our retail commissions decreased primarily due to lower transaction volumes, and the previously disclosed suspension of the sale of certain alternative investment products in November 2014, as previously discussed. Although many of these products have since been reinstated to the Company's list of approved alternative investment products and sales are improving, they have not rebounded to the levels achieved in fiscal 2014.

Principal transactions, consisting primarily of our trading activities in equities, municipal and corporate debt and treasury bonds, saw a decline of 33%, due to light trading volumes in the market. This decline is primarily due to the extraordinary volumes seen in Q2 2014, specifically, the equity sectors and the resurgence in municipal volumes and spreads in 2014 returned to more normalized levels in 2015. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts.

Investment banking improved with an increase of 6% over the same period last year.

As a result, the Company reported after tax net income of \$631,000 and \$4,519,000 for the six months ended March 31, 2015 and 2014, respectively.

Revenues

| | Six Months Ended March 31, | | Increase (Decrease) | |
|-------------------------------------|----------------------------|---------------------|----------------------|--------------|
| | 2015 | 2014 | Amount | Percent |
| Commissions | \$50,162,000 | \$57,913,000 | \$(7,751,000) | -13 % |
| Principal transactions | 6,143,000 | 9,142,000 | (2,999,000) | -33 % |
| Investment banking | 9,513,000 | 8,952,000 | 561,000 | 6 % |
| Investment advisory | 7,352,000 | 6,936,000 | 416,000 | 6 % |
| Interest and dividends | 1,678,000 | 1,817,000 | (139,000) | -8 % |
| Transfer fees and clearing services | 4,567,000 | 4,767,000 | (200,000) | -4 % |
| Tax preparation and accounting | 4,507,000 | 4,275,000 | 232,000 | 5 % |
| Other | 193,000 | 112,000 | 81,000 | 72 % |
| Total Revenues | \$84,115,000 | \$93,914,000 | \$(9,799,000) | -10 % |

Total revenues decreased \$9,799,000, or 10%, in the first six month of fiscal year 2015 to \$84,115,000 from \$93,914,000 in the same period of fiscal year 2014.

As previously discussed, our retail commissions decreased primarily due to the lower market volumes experienced in the first half of the year, and the previously disclosed suspension of the sale of certain alternative investment products in November 2014. Although many of these products have since been reinstated to the Company's list of approved alternative investment products, and sales are improving, they have not rebounded to the levels achieved in fiscal 2014.

Principal transactions, consisting primarily of our trading activities in equities, municipal and corporate debt and treasury bonds saw a decline of 33%. As mentioned earlier, this decline is primarily due to the extraordinary volumes seen in Q2 2014, specifically, the equity sectors and the resurgence in municipal volumes and spreads in 2014

returned to more normalized levels in 2015. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts.

Good execution in Investment banking produced an increase of 6% over the same period last year.

Commission revenue decreased \$7,751,000, or 13%, to \$50,162,000 from \$57,913,000 during the first six months of fiscal year 2015 compared with the same period in fiscal year 2014, again the a result of the adverse market conditions and the impact of the temporary suspension of the sale of certain alternative investment products in November 2014.

Principal transactions, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased \$2,999,000, or 33%, to \$6,143,000 from \$9,142,000 during the first six months of fiscal year 2015 compared with the same period in fiscal year 2014. The decrease, as previously discussed is primarily due to the extraordinary volumes seen in Q2 2014. The equity sectors and the resurgence in municipal volumes and spreads in 2014 returned to more normalized levels in 2015. The treasury division continued to feel pressure due to federal regulations, yield pressure and large counterparty business shifts.

Investment banking fees increased \$561,000, or 6%, to \$9,513,000 from \$8,952,000 during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. This increase is attributable to a higher number of successful capital raising events for clients during the first six months.

Investment advisory fees, increased \$416,000, or 6%, to \$7,352,000 from \$6,936,000 in the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The increase is primarily due to a small increase in total average assets under management during the period.

Interest and dividend income decreased by \$139,000, or 8%, to \$1,678,000 from \$1,817,000 in the first six months of fiscal year 2015 compared with the same period in fiscal year 2014. This decrease is primarily attributable to slightly lower customer margin and free cash balances in place during the first six months, the result of overall lower market activity.

Transfer fees and clearing services decreased \$200,000, or 4%, to \$4,567,000 from \$4,767,000 in the first six months of fiscal year 2015 compared with the same period in fiscal year 2014. This decrease is consistent with the lower retail commissions earned during the period.

Tax preparation and accounting fees increased \$232,000, or 5%, to \$4,507,000 from \$4,275,000 in the first six months of fiscal year 2015 compared with the same period in fiscal year 2014.

Other revenue increased \$81,000, or 72%, to \$193,000 from \$112,000 during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014.

Operating Expenses

In comparison with the 10% decrease in total revenues, total expenses decreased by 7%, or \$6,087,000, to \$83,067,000 for the first six months of fiscal year 2015 compared to \$89,154,000 in the same period of fiscal year 2014. The decrease in total expenses is primarily as a result of the decrease in commissions, compensation and fees and clearing costs. These decreases were commensurate with the decline in commissionable revenue.

| | Six Months Ended March | | Increase (Decrease) | | |
|------------------------------------|------------------------|---------------------|----------------------|-----------|----------|
| | 2015 | 2014 | Amount | Percent | |
| Commissions, compensation and fees | \$71,387,000 | \$76,528,000 | \$(5,141,000) | -7 | % |
| Clearing fees | 1,528,000 | 2,140,000 | (612,000) | -29 | % |
| Communications | 2,442,000 | 2,331,000 | 111,000 | 5 | % |
| Occupancy | 2,025,000 | 2,027,000 | (2,000) | 0 | % |
| License and registration | 867,000 | 753,000 | 114,000 | 15 | % |
| Professional fees | 1,820,000 | 2,098,000 | (278,000) | -13 | % |
| Interest | 6,000 | 24,000 | (18,000) | -75 | % |
| Depreciation and amortization | 568,000 | 562,000 | 6,000 | 1 | % |
| Other administrative expenses | 2,424,000 | 2,691,000 | (267,000) | -10 | % |
| Total Operating Expenses | \$83,067,000 | \$89,154,000 | \$(6,087,000) | -7 | % |

Commissions, compensation, and fees, which includes expenses based on commission revenue, net dealer inventory gains and investment banking, as well as compensation to our employees, brokers, and support staff, decreased by \$5,141,000, or 7%, to \$71,387,000 from \$76,528,000 for the first six months of fiscal year 2015 compared to the first six months of fiscal year 2014. The decrease is directly attributable to the decrease in revenues. Commission expense also includes the amortization of forgivable loans to registered representatives aggregating \$149,000 and \$105,000 for the first six months of fiscal year 2015 and 2014, respectively. These amounts fluctuate based upon the amounts of forgivable loans outstanding and the time period for which the registered representatives have agreed to be affiliated with National Securities. Employee compensation includes the amortization of the fair value associated with stock based compensation of \$253,000 and \$427,000 for the first six months ended March 31, 2015 and 2014, respectively.

Clearing fees decreased \$612,000, or 29%, to 1,528,000 from \$2,140,000 in the first six months of fiscal year 2015 compared to the first six months of fiscal year 2014. The decrease is partly a result of the decline in total transactions executed during the first six months of fiscal 2015 as compared to the same quarter in fiscal year 2014, combined with negotiated reductions in certain clearing costs and amortization of deferred clearing credits, when the Company signed coterminous amendments to its clearing agreements with National Financial Services, its primary clearing firm for the Broker Dealer Subsidiaries.

Communications expenses increased by \$111,000, or 5%, to \$2,442,000 from \$2,331,000 in the first six months of fiscal year 2015 compared with the same period in fiscal year 2014. This increase is primarily due to the updating of services within the Gilman branches.

Occupancy expenses decreased \$2,000 to \$2,025,000 from \$2,027,000 in the first six months of fiscal year 2015 compared with the same period in fiscal year 2014. Savings from the consolidation of two Gilman offices into one began to take effect in the second quarter of 2015.

License and registration fees increased \$114,000, or 15%, to \$867,000 from \$753,000 in the first six months of fiscal year 2015 compared with the same period of fiscal year 2014. This increase is primarily due to the Company paying \$45,000 for its new NASDAQ listing in March 2015 and higher fees for newly registered associates and branches in the first six months of 2015 as compared to the same period in 2014.

Professional fees decreased \$278,000, or 13%, to \$1,820,000 from \$2,098,000 in the first six months of fiscal year 2015 compared with the first six months of fiscal year 2014. This decrease is attributed to the Company having collected more of its defense costs associated with various arbitrations from its registered representatives.

Interest expense decreased by \$18,000, or 75%, to \$6,000 from \$24,000 in the first six months of fiscal year 2015 compared with the first six months of fiscal year 2014.

Depreciation and amortization expenses increased \$6,000, or 1%, to \$568,000 from \$562,000 in the first six months of fiscal year 2015 compared with the first six months of fiscal year 2014.

Other administrative expenses decreased \$267,000, or 10%, to \$2,424,000 from \$2,691,000 in the first six months of fiscal year 2015 compared with the first six months of fiscal year 2014. This decrease is primarily attributable to cost cutting of insurance and office supplies.

NON-G.A.A.P. INFORMATION

Management considers earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, an important indicator in evaluating our business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not part of our core operations, such as interest expense and amortization expense associated with intangible assets, or items that do not involve a cash outlay, such as stock-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 March 31, 2015 and 2014, EBITDA, as adjusted, was \$997,000 and \$4,271,000, respectively. This decrease of \$3,274,000 or 77%, in the three months ended March 31, 2015 over the same period in 2014 resulted from a decrease in revenues and the resulting lower operating income in the current period.

For the six months ended March 31, 2015 and 2014, EBITDA, as adjusted, was \$2,024,000 and \$5,876,000, respectively. This decrease of \$3,852,000 or 66%, in the six months ended March 31, 2015 over the same period in 2014 resulted from a decrease in revenues and the resulting lower operating income in the first half of 2015.

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|-------------|-------------------|-------------|
| | March 31, 2015 | 2014 | March 31, 2015 | 2014 |
| Net income, as reported | \$337,000 | \$3,560,000 | \$631,000 | \$4,519,000 |
| Interest expense | 2,000 | 8,000 | 6,000 | 24,000 |
| Income taxes | 196,000 | 134,000 | 417,000 | 241,000 |
| Depreciation | 82,000 | 101,000 | 159,000 | 201,000 |
| Amortization | 212,000 | 197,000 | 409,000 | 361,000 |
| EBITDA | 829,000 | 4,000,000 | 1,622,000 | 5,346,000 |
| Non-cash compensation expense | 85,000 | 217,000 | 253,000 | 425,000 |
| Forgivable loan amortization | 83,000 | 54,000 | 149,000 | 105,000 |
| EBITDA, as adjusted | \$997,000 | \$4,271,000 | \$2,024,000 | \$5,876,000 |

EBITDA, adjusted for forgivable loan amortization and non-cash compensation expense, 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 | |
|--|-------------------|--------------|-----------------------------|--------------|
| | March 31, 2015 | 2014 | first six months of 2015 | 2014 |
| Cash | \$23,924,000 | \$21,404,000 | \$24,195,000 | \$20,695,000 |
| Receivables from broker-dealers and clearing organizations | 3,632,000 | 4,332,000 | 4,309,000 | 4,314,000 |
| Securities owned | 914,000 | 691,000 | 988,000 | 533,000 |
| Accounts payable, accrued expenses and other liabilities | 17,648,000 | 19,536,000 | 18,442,000 | 17,111,000 |

We maintain a reasonably high level of liquidity on our balance sheet. At March 31, 2015 and 2014, respectively, 44% and 54%, of our total assets consisted of cash, securities owned and receivables from clearing brokers and other broker-dealers and others. 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.

National Securities is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) (the "Rule"), which, among other things, requires the maintenance of minimum net capital. In February 2015, pursuant

to a directive from FINRA, National Securities reverted back to using the alternative method of computing net capital from the aggregate indebtedness method. At March 31, 2015, National Securities had net capital of \$7,165,930 which was \$6,915,930 in excess of its required net capital of \$250,000. National Securities claims exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

vFinance Investments is subject to the Rule, which, among other things, requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At March 31, 2015, vFinance Investments had net capital of \$3,003,962 which was \$2,003,962 in excess of its required net capital of \$1,000,000. vFinance Investments percentage of aggregate indebtedness to net capital was 153.8%. vFinance Investments claims exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k) (2) (ii) as it clears its customer transactions through its correspondent brokers on a fully disclosed basis.

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

During the first six months of fiscal 2015 and 2014, 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.

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 amounted to \$211,000 and \$72,000 during the first six months of fiscal 2015 and 2014, respectively.

| | Six months ended | |
|--|------------------|-------------|
| | March 31, | |
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Net income | \$631,000 | \$4,519,000 |
| Non-cash adjustments | | |
| Depreciation and amortization | 568,000 | 563,000 |
| Stock based compensation | 253,000 | 425,000 |
| Deferred tax expense | 374,000 | - |
| Other | 244,000 | 252,000 |
| Changes in assets and liabilities | | |
| Receivables from clearing organizations, broker-dealers and others | 901,000 | 289,000 |
| Accounts payable and accrued expenses and other liabilities | (2,156,000) | (461,000) |
| Prepaid expenses | (981,000) | (324,000) |
| Other | (164,000) | (26,000) |
| Net cash used in operating activities | (330,000) | 5,237,000 |
| Cash flows from investing and financing activities | | |
| Acquisition-related cash acquired | - | 1,654,000 |
| Payment of certain liabilities of acquired entity | - | (5,400,000) |
| Purchase of fixed assets | (211,000) | (72,000) |
| Net cash used in investing activities | (211,000) | (3,818,000) |
| Net (decrease) increase in cash | \$(541,000) | \$1,419,000 |

Six months ended March 31, 2015

The decrease in receivables from clearing organizations, broker-dealers and others during the first six months of fiscal 2015 is primarily due to the lower revenue performance in the commissions earned during the last month of a given quarter as compared to the same month of the previous year. These receivables are typically received within 10 days of the close of the month.

The decrease in accounts payable, accrued expenses and other liabilities is primarily due to timing differences in payments of commissions and other payables which may vary depending when they are earned during the respective quarters. Additionally, we paid approximately \$1,123,000 in income taxes during the six months ended March 31, 2015 which were included in accounts payable and accrued expenses and other liabilities.

Six months ended March 31, 2014

The decrease in receivables from clearing organizations, broker-dealers and others during the first half of fiscal 2014 is primarily due to the lower revenue in the first six months of 2014. Receivables are typically received within 10 days of the close of the month.

The decrease in accounts payable, accrued expenses and other liabilities is primarily due to timing differences in payments of commissions and other payable which may vary depending when they are earned during the respective quarters.

Cash provided by investing activities during the first half of 2014 amounted to \$1,582,000 and is primarily attributable to cash acquired of \$1,654,000 resulting from the Gilman merger. Cash used in financing activities of \$5,400,000 was for the payment of certain liabilities of Gilman at the date of closing of the merger.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company's primary market risk arises from the fact that it engages in proprietary trading and makes 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 we owned ("long") and securities we sold but have not yet purchased ("short"), as of March 31, 2015:

| | Securities | |
|-------------------------------|------------------|--|
| | Securities owned | Securities sold, but not yet purchased |
| Corporate stocks | \$ 237,000 | \$ - |
| Municipal bonds | 503,000 | 34,000 |
| Restricted stock and warrants | 174,000 | - |
| Total | \$ 914,000 | \$ 34,000 |

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems and inadequacies or breaches in our control processes. We operate in a dynamic market and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions and damage to our reputation. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees operate within established corporate policies and limits.

Risk Management

We have established various committees of the Board of Directors to manage the risks associated with our business. Our Audit Committee was established for the primary purpose of overseeing (i) the integrity of our unaudited and audited condensed consolidated financial statements, (ii) our compliance with legal and regulatory requirements that may impact our unaudited condensed consolidated financial statements or financial operations, (iii) the independent auditor's qualifications and independence and (iv) the performance of our independent auditor and internal audit function.

In addition, we have written policies and procedures that govern the conduct of business by our employees and our relationship with our clients. Our client policies address the extension of credit for client accounts, data and physical security, compliance with industry regulation and codes of ethics to govern employee conduct among other matters.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure 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 our evaluation of 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), our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our 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.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company establishes liabilities for potential losses from complaints, legal actions, government investigations and proceedings where the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, the Company bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect the Company's estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, the Company cannot predict with certainty the eventual loss or range of loss related to such matters. These claims may be covered by our errors and omissions insurance policy. While the Company believes these claims are without merit, and will vigorously defend itself in these matters, and will assert insurance coverage and indemnification to the maximum extent possible, there can be no assurance that these lawsuits and arbitrations will not have a material adverse impact on the Company's financial position. At March 31, 2015 and September 30, 2014, the Company accrued approximately \$542,000 and \$440,000, respectively, for these matters, and are included in "Accounts Payable and other Accrued Expenses" in the accompanying consolidated statements of financial condition. The Company has included in "Professional fees" litigation and FINRA related expenses of \$411,000 and \$318,000 for the three months ended March 31, 2015 and 2014, respectively.

SUBSEQUENT EVENTS – New Hire Glenn Worman

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY

Not applicable

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 Principal 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 Principal Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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

May 15, 2015 By: /s/ Robert Fagenson
Robert Fagenson
Chairman of the Board and Chief Executive Officer

May 15, 2015 By: /s/ Alan B.
Levin
Alan B. Levin
Chief Financial Officer